

**REGULAR MEETING OF THE RETIREMENT BOARD OF ADMINISTRATION
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MINUTES

FEBRUARY 13, 2013

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Ronald O. Nichols, General Manager
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

Board Members Absent:

Mario Ignacio, Chief Accounting Employee
DWP Commissioner - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Monette Carranceja, Assistant Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Alan Manning, Assistant City Attorney

President Romero called the meeting to order at 9:03 a.m.

Ms. Bhatia indicated a quorum of the Board was present.

PUBLIC COMMENTS

Ms. Escudero reported no public comments were received.

Mr. Romero introduced Management Analyst Mellie Yip and Management Analyst Tracey Yasunaga as the two newly hired employees to join the staff of the Retirement Plan Office.

1. Approval of Minutes:

- a) **January 9, 2013, Regular Meeting**
- b) **January 16, 2013, Special Meeting**

Mr. Rozanski moved that the Board approve the January 9 and January 16 minutes as submitted; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

2. Notice Regarding Political Activity by City Employees and Officials

Ms. Coffin moved that the Board accept Item 2; seconded by Mr. Rozanski.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

3. Discussion of Commitment to Brookfield Timberlands Fund V

Mr. Wolfson reviewed the Board's recent decision to invest in Brookfield Timberlands Fund V, contingent upon an investigation of a misconduct allegation against one of Brookfield's property management firms in Brazil, unassociated with Brookfield's timber fund. He reported charges have now been filed and, upon further investigation, Courtland Partners (Courtland), the Plan's Real Estate consultant, recommended the Board not proceed with the investment.

Michael Humphrey and Bill Foster from Courtland provided further details of the investigation. Mr. Humphrey indicated when Courtland made its original recommendation to invest in Brookfield V, it was uncertain charges would be filed. He said Courtland still believes the chances are remote that the charges would adversely affect the timber investment, but something could potentially occur, so Courtland recommended the Board rescind its decision to invest in this fund.

Mr. Romero asked about next steps, and Mr. Humphrey stated Courtland would proceed with one of the other funds they examined. He added if this matter is resolved quickly and Courtland is satisfied all risk has been eliminated, then Courtland might recommend Brookfield in the future.

Ms. Coffin asked why Courtland originally recommended Brookfield despite their awareness of this issue. Mr. Humphrey said given Brookfield's capabilities and track record, and because the issue did not involve Brookfield's timber group, Courtland believed Brookfield V was worth pursuing as long as the issue would not affect the timber group and the Plan.

Ms. Coffin asked why Staff's report did not include the usual statement indicating concurrence with the recommendation. Mr. Wolfson replied Staff wanted to rely on the consultant to provide their opinion. He stated Staff agreed with Courtland and believed Brookfield, theoretically, would be a sound investment; however, headline risk now exists, and the issue has yet to come to fruition.

Mr. Rozanski moved that the Board approve Resolution No. 13-62 to rescind the decision to commit funds to Brookfield Timberlands Fund V; seconded by Mr. Nichols.

Ayes Coffin, Nichols, Poole, Romero, Rozanski

Nays None

Absent Ignacio

THE MOTION CARRIED.

4. Discussion of Letter from Mayor Antonio R. Villaraigosa Regarding Review of Retirement Funds for Divestment of Assault Weapon Companies

Stephanie Magnien Rockwell from Councilwoman Jan Perry's office thanked the Board under Public Comments for considering this item. She referenced Councilwoman Perry's letter to the Retirement Board and reiterated Ms. Perry's conviction to make a stand against gun violence and not use city dollars to fund companies involved with weapons and ammunition.

Mr. Rozanski moved that this item be sent to the Governance Committee for consideration; seconded by Mr. Nichols.

Ayes Coffin, Nichols, Poole, Romero, Rozanski

Nays None

Absent Ignacio

THE MOTION CARRIED.

5. Ratification of Board's Action to Join as Plaintiffs in Existing Litigation

Ms. Bhatia stated this item was to ratify the Board's action at the special meeting of January 16, 2013, to join the existing litigation of Romero et al. v. City of Los Angeles et al., as voluntary plaintiffs to actively protect the authority and interest of the Board and the interest of the members and beneficiaries of the Plan.

Assistant City Attorney Alan Manning stated the Court's ruling referenced in the original motion is not final and the City Attorney's Office is pursuing a legal challenge to the Court of Appeal. He advised the Board that until the Court of Appeal has ruled on this, the Board should be careful about spending any Plan assets in this matter. Mr. Romero stated the Board will proceed to take action.

Mr. Rozanski moved that the Board approve Resolution No. 13-55 to ratify the Board's action to join the litigation; seconded by Ms. Coffin.

*Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio*

THE MOTION CARRIED.

6. Ratification of Board's Action to Retain Plaintiffs' Counsel in Pending Litigation

Mr. Romero stated this item was in conjunction with Item 5 and ratified a second action taken by the Board at the special meeting of January 16, 2013.

Mr. Nichols asked if this involved any payments by the Board for services already performed by the firm or only for services going forward. Mr. Romero stated it was for payments going forward.

Mr. Rozanski moved that the Board approve Resolution No. 13-56 to retain plaintiffs' counsel; seconded by Ms. Coffin.

*Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio*

THE MOTION CARRIED.

7. Discussion of July 1, 2013, Annual Cost of Living Adjustment for Eligible Recipients of Monthly Retirement Plan Benefits

Ms. Bhatia reported the Cost of Living adjustment (COLA) is based on the Consumer Price Index (CPI) for the Los Angeles-Riverside-Orange County, California-Metropolitan area as published by the Bureau of Labor Statistics, and the increase in the CPI used to determine the adjustment for July 1, 2013, was 2% and will be payable August 1, 2013. She stated the Plan also provides for a tiered COLA for those with COLA banks. She explained the function of the COLA banks and noted the resolution associated with this item provides for this tiered COLA of up to 3% effective August 1.

Mr. Rozanski moved that the Board approve Resolution No. 13-57 to implement the 2013 Cost of Living Adjustment; seconded by Ms. Coffin.

*Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio*

THE MOTION CARRIED.

8. Discussion of Update to Investment Policy Guidelines

Mr. Wolfson presented the background for this recommendation to update the Plan's Investment Policy to include language that would require investment managers to replicate the structure and holdings for the Retirement Fund and Retiree Health Benefits Fund portfolios.

Mr. Nichols asked if the addition of this language would obligate the Board to rebalance any accounts, which might then result in additional costs. Mr. Wolfson stated the proposed additional language would not have any impact on a rebalance because the managers are already expected to replicate the portfolios. Neil Rue from Pension Consulting Alliance recommended the proposed language remain unchanged because other existing clauses in the Investment Policy provide options if managers are unable to create identical accounts.

Mr. Rozanski moved that the Board approve Resolution No. 13-58 to revise the Investment Policy as recommended; seconded by Ms. Coffin.

Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio

THE MOTION CARRIED.

9. Discussion of Global Real Estate Investment Trust Securities Investment Pacing

Mr. Wolfson stated this item recommended pacing the investments to European Investors, Inc. (EII), and Dimensional Fund Advisors (DFA), the two managers the Board recently hired to manage the Real Estate Investment Trust (REIT) securities mandate. He provided a brief background and stated representatives from Courtland Partners were present to discuss their recommendation.

Michael Humphrey from Courtland introduced his colleagues Bill Foster and Stanley Kim. Mr. Humphrey explained Courtland developed a pacing schedule because they believe timing these investments is risky given the current level of REIT valuations.

Mr. Foster stated Courtland still considers REITS to be a good source of Core real estate exposure; however, because they are concerned about the pricing at this time, Courtland suggested pacing the approved investments over a longer period. He said Courtland recommended the Board fund \$10 million each (of the approved \$50 million allocation) to EII and DFA, then pace funding the remaining amount over seven subsequent quarters.

Discussion ensued regarding the language of Resolution No. 13-59 to pace the funding, and whether Courtland should have the flexibility to change the pacing rate, if the market changes, without first coming back to the Board.

Mr. Nichols moved that Resolution No. 13-59 be modified to read that following the initial investment of \$20 million, the remaining \$30 million be funded over a period of up to seven quarters, and that Staff periodically update the Board as the remaining investments occur; seconded by Mr. Rozanski.

Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio

THE MOTION CARRIED.

10. Discussion of the European Investors, Inc., Global Real Estate Investment Trust Securities Mandate

Mr. Wolfson reported that during contract negotiations with European Investors, Inc. (EII), one of the two Real Estate Investment Trust (REIT) managers that the Board recently selected, Staff learned that EII could only place the Retiree Health Benefits Fund (RHBF) investment into its Global Property mutual fund due to Internal Revenue Service classification reasons. He stated the Board originally thought the RHBF funds would be placed into EII's commingled World Fund account. He noted that although the fees were slightly higher and not negotiable, they were still at a discounted rate.

Bill Foster from Courtland Partners explained the difference between EII's World Fund and Global Property Fund. Following an analysis of the various options, he stated Courtland recommended the Board invest \$5 million of RHBF assets into EII's Global Property Fund.

Ms. Coffin moved that the Board approve Resolution No. 13-60 to invest \$5 million of RHBF assets into EII's Global Property Fund; seconded by Mr. Rozanski.

*Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio*

THE MOTION CARRIED.

11. Discussion of Request to Extend Contract with Outside Investment Counsel

Ms. Bhatia stated the contract with Nossaman, LLP, expired on November 30, 2012, and the City Attorney is requesting that the Board extend the contract from December 1, 2012, through November 30, 2013, or until a new contract can be executed.

Assistant City Attorney Alan Manning explained the City Attorney's Office will move forward with a new contract as soon as the Board approves a new Request for Proposal process.

Mr. Nichols asked why the associated resolution refers to investment counsel services but the City Attorney memorandum refers to fiduciary as well as investment counsel services. Mr. Manning stated he learned, after he submitted the memorandum, that the Board did not wish to consider the fiduciary aspect at this meeting, and the only request at this time is to extend the investment counsel contract. Mr. Romero explained he had suggested the Board only address the immediate action of the extension for the current attorney at this time and then perhaps discuss outside fiduciary counsel at a future meeting.

Mr. Rozanski moved that the Board approve Resolution No. 13-61 to extend the contract with Nossaman, LLP, for investment counsel services, up to one year; seconded by Ms. Coffin.

*Ayes Coffin, Nichols, Poole, Romero, Rozanski
Nays None
Absent Ignacio*

THE MOTION CARRIED.

12. Presentation by Courtland Partners – 2012 Third Quarter Real Estate Performance Report

Michael Humphrey, Bill Foster, and Stanley Kim presented Courtland Partners' third quarter performance report for the Plan's real estate portfolio.

Mr. Humphrey reported the one-year income return for the real estate portfolio exceeded both the benchmark and a compilation of open-ended core pool funds. He noted the portfolio has a strong income return and strong appreciation. He attributed the results to a combination of the portfolio's Value-Add income return and the foundation income return from Core.

Mr. Foster reviewed the summary net returns and noted the Core portfolio was up 10%, Value-Add was up 15%, and Opportunistic was up 23%. His review also covered capital commitments, target levels, diversification, and leverage.

13. Annual Presentation by Loomis, Sayles & Co. – High Yield Fixed Income Manager

Stephanie Lord from Loomis, Sayles (Loomis) updated the Board on the organization and performance and discussed the firm's outlook. She reported the gross returns for 2012 exceeded the benchmark 23% versus 16%. She reviewed the annualized returns and reported high yield corporate holdings were the strong performers.

She reviewed the portfolio characteristics and noted the yield was below the index. She stated the index can be challenging, but Loomis chose to make higher quality investments over outperforming the index. She reviewed the interest rate sensitivity and noted they are reducing interest rate risk where they can and pulling out as much duration as they can.

Her presentation also included a brief market outlook, which she said remains slightly more positive than last year's outlook.

14. Annual Presentation by Wells Capital Management – High Yield Fixed Income Manager

Steve Scharre and Niklas Nordenfelt presented Wells Capital Management's (Well Capital) annual report. Mr. Scharre provided an organizational update and reviewed the compliance and account history.

Mr. Nordenfelt reviewed the investment team, market environment, portfolio performance, and outlook. He reported the portfolio had strong absolute returns in 2012 but lagged the benchmark. He explained the portfolio exceeded the benchmark on a risk-adjusted basis, because of its lower volatility; however, the portfolio was underweight in all risk aspects, which contributed to the lower relative performance. He noted the performance is consistent with their style where they lag in strong years. He added that because they have high risk-adjusted returns, they believe the strategy is working, and it just needs a full economic cycle to play out.

15. Investment Reports for December 2012

- a) **Summary of Investment Returns as of December 31, 2012**
- b) **Market Value of Investments by Fund and Month as of December 31, 2012**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of December 31, 2012**
- d) **Summary of Contract Expirations**

No discussion took place.

16. Retirement Plan Manager's Comments

Ms. Bhatia reported the following highlights for 2012:

She reported 2012 was the first year with no Board Member changes, although the Commissioner seat remains vacant. The Board held 27 meetings, including committee meetings, and the Retirement Office continued to maintain the timely preparation of minutes, which remains up to date.

She reported the Plan is responsible for approximately \$400 million in annual benefit payments. Staff implemented the retiree payroll module of the new Integrated Pension System (IPS),

beginning with the May 1 check. Staff also processed the 1099Rs from IPS for the first time, with a few glitches but no major incidents.

She reported Staff eliminated the backlog of retirement estimate requests and processed 312 retirements compared to 271 for 2011; the historical average is approximately 200. Staff distributed 9,000 annual statements to active employees, and the distribution timing continues to improve each year. The annual statements were generated from IPS.

She reported the Retirement Office trained 1,500 employees at retirement seminars, both pre-retirement and mid-career.

With regard to personnel, the Retirement Office hired seven employees to fill vacancies resulting from retirements, disabilities, and transfers; four Retirement Office employees retired between the end of last year and early this year.

She reported the Retirement Office conducted its first annual safety event as planned by the Joint Labor Management Committee, and it was a success. This was in addition to the two regular safety meetings held in 2012.

With regard to investments, she reported that as of December 31, 2012, the value of both the Retirement Fund and the Health Benefits Fund was approximately \$9 billion. Staff managed the asset class restructures following the asset allocation changes adopted by the Board. Staff also conducted three large investment transitions. She reported the Board approved commitments of approximately \$130 million to private equity and other alternative investments last year, although the Board rescinded \$25 million of that today. The Board hired four public markets managers, funded 11 managers after completing contracts, and extended four contracts. She noted that as part of these extensions, Staff successfully renegotiated fees for a total ongoing annual savings of approximately \$230,000.

She reported Staff successfully managed and implemented several different types of investment policy revisions including guidelines for newly adopted mandates, changes to the structure of the real return asset class, as well as watch criteria thresholds.

Staff also continues to monitor the commission recapture program as well as the securities lending program. She reported the commission recapture program earned \$335,000 last year, and the securities lending program earned \$2.5 million.

She reported Staff continues to address ongoing issues and challenges. One is the web module of IPS. The data cleanup as part of the conversion to the new system continues to be an issue, and Staff is working on that by employee record. The other item is the workflow for day-forward scanning. She reported a proper workflow is in place, but that only applies to day-forward scanning, as the issue of scanning member records for the back files is still unresolved.

Ms. Bhatia acknowledged the efforts and contributions of the entire Retirement Office Staff. She acknowledged the work of Reggie Brewer for enabling these meetings to run smoothly, and she thanked all of the Board Members for their support.

Mr. Romero thanked staff and noted the Board's appreciation for all of their work.

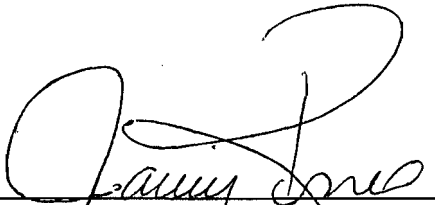
Commenting on Ms. Bhatia's report, Mr. Poole asked if the Retirement Office has projections for the number of retirements for this year. Ms. Bhatia stated the number of retirement applications has increased over the past couple of years, but the Retirement Office does not have the ability to perform forecasts.

Mr. Rozanski asked about the process for Med B checks. Ms. Bhatia stated the Med B checks are handled by the Health Plans Office, and the checks have been mailed. She reported the system issue related to processing the checks has been resolved and, eventually, the module will be part of IPS; however, the check amount will not be added to the pension checks. She noted that Health Plans will continue to maintain the responsibility for the Med B checks.

17. Future Agenda Items


None requested at this time.

There being no further business, the meeting adjourned at 10:40 a.m.



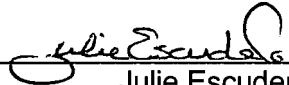
Javier Romero
Board President

3/27/13
Date



Sangeeta Bhatia
Retirement Plan Manager

3/27/13
Date



Julie Escudero
Utility Executive Secretary

3.27.13
Date