

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

MINUTES

APRIL 9, 2014

Board Members Present:

Javier Romero, President
Barry Poole, Vice President
LaTanya Bogin, Regular Member
Mario Ignacio, Chief Accounting Employee
Robert Rozanski, Retiree Member
Marcie L. Edwards, General Manager

Board Members Absent:

DWP Commissioner – Vacant

Staff Present:

Mary Higgins, Assistant Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Monette Carranceja, Assistant Retirement Plan Manager
Will Feng, Sr. Utility Accountant
Mary E. Alvarez, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

Mr. Romero called the meeting to order at 9:05 a.m.

Ms. Higgins stated a quorum of the Board of Administration (Retirement Board) of the Water and Power Employees' Retirement Plan (Plan) was present.

Public Comments

Ms. Alvarez stated no request for public comment was received.

1. Discussion of Benefits Group 2013 Workload Statistics Report

Mr. Romero requested a list of beneficiaries that have not been located be provided to Ms. Bogin, Chair of the Benefits Committee. Ms. Higgins confirmed that she would provide the information to Ms. Bogin.

2. Discussion of the Experience Study for the Period July 1, 2009, through June 30, 2012, as Prepared and Presented by Segal Consulting

Ms. Higgins stated that the item was returned to allow the Retirement Board the opportunity to act on the recommendations in the Experience Study, prior to the commencement of work on the 2014 valuation. Ms. Higgins also presented a brief overview of the report to adopt the Experience Study, prepared by The Segal Company, for the period July 1, 2009, through June 30, 2012.

Mr. Rozanski inquired on the process for the phase-in approach. Ms. Higgins explained that the 2014 valuation would be based on the assumptions. Discussion ensued regarding the options to recognize the increase in cost resulting from the proposed changes in assumptions. Mr. Poole stated that he preferred option No. 1 for a "No phase-in."

Mr. Rozanski moved that the Board approve a two-year phase in option for Resolution No. 14-76; seconded by Ms. Edwards.

*Ayes: Bogin, Edwards, Ignacio, Romero, Rozanski
Nays: Poole
Absent: None*

THE MOTION CARRIED.

3. Discussion of Pyramis Global Advisors – International Developed Growth Equity

Mr. Manjikian presented the report to remove Pyramis Global Advisors (Pyramis) from organizational watch status. He reported that Pyramis outperformed its benchmark for the one-year, three-year, and since inception periods. He noted during the watch period, staff and Pension Consulting Alliance, Inc., (PCA) closely monitored the organizational changes at the firm and observed no negative impact to the firm's ability to effectively manage the portfolios.

Mr. Rozanski moved that the Board approve Resolution No. 14-77; seconded by Mr. Ignacio.

*Ayes: Bogin, Edwards, Ignacio, Poole, Romero, Rozanski
Nays: None
Absent: None*

THE MOTION CARRIED.

4. Discussion of Contract Extension with Simpson and Simpson, CPAs

Mr. Feng presented the report to extend the auditing services contract with Simpson & Simpson, CPAs (Simpson) for a two-year period beginning May 1, 2014, through April 30, 2016, with inflation-based fee increases for the auditing services and an additional amount for implementation of the Government Accounting Standards Board Statement No. 67 (GASB 67).

Mr. Rozanski inquired on the total amount of the contract. Mr. Feng stated the first year cost of the audit was approximately \$94,000 and the second year was subject to CPI and capped at 3 percent, plus the one-time fee. Discussion ensued regarding the history with Simpson and Simpson. Mr. Romero requested that, in the future, staff consider the benefits of putting out a Request for Proposal.

Mr. Rozanski moved that the Board approve Resolution No. 14-78; seconded by Ms. Poole.

*Ayes: Bogin, Edwards, Ignacio, Romero, Rozanski
Nays: Poole
Absent: None*

THE MOTION CARRIED.

5. Ratification of the Retirement Board's Selection of Custodian Bank

Mr. Wolfson presented the report to approve Resolution No. 14-79 to ratify the selection of The Northern Trust Company, as the Plan's custodian bank.

Mr. Rozanski moved that the Board approve Resolution No. 14-79; seconded by Mr. Ignacio.

Ayes: Bogin, Edwards, Ignacio, Poole, Romero, Rozanski
Nays: None
Absent: None

THE MOTION CARRIED.

6. Discussion of Courtland Partners 2014 Real Estate Strategic Plan

Michael Humphrey, Stanley Kim, and Bill Foster of Courtland Partners (Courtland) presented the Strategic Plan and Portfolio Model for the Real Estate portfolio. Mr. Humphrey stated as of the third quarter 2013 the portfolio had a market value of approximately \$300 million with about \$160 million of unfunded investment commitments, which equates to about \$455-\$456 million of current market value, plus unfunded commitments. The Real Estate allocation is currently about 3% of the portfolio with a 5% portfolio allocation target. He also stated that in terms of performance, the IRR since the 4th quarter of 2006 (the Plan's first real estate investment) is 4.6%. In terms of time-weighted returns over the last three years, the performance has been pretty strong. The three year total return on a gross basis is 18%, the benchmark performance was well-exceeded, and the net return was 15.7% on a time-weighted basis. On a five-year basis, the portfolio underperformed the benchmark.

Mr. Foster presented a recap of the 2013 real estate allocations. He discussed the strategic plan overview, tactical and strategic initiatives stating while income returns have improved, they will continue to focus on income, maintain low portfolio-level leverage levels, and capitalize on distress and lack of liquidity in the market. He also discussed the 2014 projected income returns stating that income returns have increased considerably, over 6% gross for one-year, two-year, three-year, and five-year periods. He also reviewed several portfolio models and the projected changes in the portfolio value.

Mr. Foster stated Courtland recommends the following commitment amounts to maintain 5% allocation to real estate in 2014 and beyond: \$120 million in 2014; \$80 million in 2015; and \$50 million in 2016. Mr. Foster also advised that Courtland proposed this year to fund \$60 million in Core, \$30 million in Value-Add, and \$30 million in Opportunistic.

Mr. Romero inquired on the possibility of direct building ownership for the Retirement Plan Office. Mr. Humphrey stated that there are opportunities to ownership in terms of taking advantage of market conditions; however, focus must also be placed on space needs, as well as the benefits of ownership as opposed to leasing. Mr. Humphreys stated he would discuss the matter with staff and report to the Retirement Board at a later date. Mr. Romero stated that the matter would be agenzized at a later date for detailed discussion with staff and Courtland.

7. Annual Presentation by BlackRock Investment Management, LLC - Large Cap Core Manager

Denise Tinsley, Vice President, and Tim Murray of BlackRock Investment presented the firm's overview, updated on the current officers, and stated that the firm has \$4.32 trillion assets under management.

Mr. Murray discussed the Beta Strategies leadership team and the core investment philosophy process to manage return, risk, and cost. He stated the investment objective for the Plan's fund is to replicate the risk and return of the Russell 1000 Index fund, and the Plan continues to perform within the expectations.

8. Annual Presentation by MFS, Large Cap Value Manager

Carolyn Lucey and Katrina Mead presented the annual performance report for MFS Investment Management. Ms. Lucey provided a brief overview of the firm and noted that they no longer accept new separate accounts for this strategy, as of October 1, 2013, in order to allow them to focus on the existing accounts.

Ms. Mead presented the market and portfolio overview stating the portfolio had a strong net return of 25.7%, for the one-year ending February 28, 2014. She also discussed the strategy implemented over the life of the portfolio and future opportunities to provide good absolute returns. Ms. Katrina also discussed the performance drivers sectors for one year as of February 28, 2014, and the characteristics of the portfolio. In response to an inquiry from Mr. Romero regarding possible investment in Apple, Inc., Ms. Mead advised that considering the durability of the franchise over the long-term period there was not clarity on its impact to the market.

9. Annual Presentation by T. Rowe Price Associates, Inc. – Large Cap Value Manager

The Retirement Board acknowledged John Plowright, Bill Nolan, and Mark Finn of T. Rowe Price. Mr. Plowright noted the approaching ten-year anniversary of providing service to the Plan. He also provided a brief overview of T. Rowe Price and stated the firm continues to function very well. He noted the Large Cap Value strategy, in which the Plan is invested, has approximately \$12 billion.

In response to Mr. Romero's inquiry regarding Brian C. Rogers' future plans with the firm considering his years of service. Mr. Plowright stated that Mr. Rogers has made no mention of retiring; however, should he plan to retire, it would be announced well in advance. Mr. Romero also asked that the firm consider diversification when hiring in the future.

Mr. Finn presented an overview of the equity research team, the firm's investment philosophy, and investment process. He provided a market overview and reviewed the Plan's portfolio characteristics.

Mr. Nolan reported the portfolio's performance was slightly ahead of the index for the quarter to date through February 2014, and added value (net of fees) for the three-year, five-year, and since-inception periods. He referenced the attribution analysis and performance attribution, noting good solid stock selection and top 20 holding list. He noted the portfolio kept pace in strong markets, outperformed in normalized markets, and outperformed in down markets.

10. Retirement Plan Manager's Comments

Ms. Higgins advised the Retirement Board on the following:

- Systems – In the last phases of successful testing with ITS to complete the migration from Pay Based to C-series.
- The RFI for Actuarial Services has been released. It is anticipated the finalists will be presented to the Retirement Board at the end of May or beginning of June.
- Tier 2 – Staff has provided dedicated training sessions.
- Fiduciary Counsel Contract – Staff is working with the City Attorney's office to bring options to the Retirement Board for consideration.
- Investment Officer Positions – Staff is working with personnel to fill the vacancies.
- New America Alliance – Ms. Edwards invited Staff to meet with this group to consider opportunities with the Department for their member groups.

Mr. Poole requested a new member book that included Tier 2 updates. Ms. Higgins advised that a new book would be distributed on June 30, 2014.

Mr. Romero inquired when the capability to provide retirement estimates would become available. Ms. Higgins advised that it would be available within the next two months.

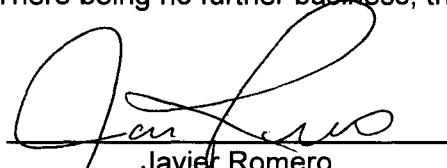
11. Future Agenda Items

Ms. Edwards requested the following item be placed on the next Retirement Board agenda: "Discussion process for selection of the Retirement Plan Manager and appropriate possible Board action"

Ms. Bogin inquired whether the Joint Labor Management Committee Minutes will be included regularly as part of the Retirement Board package. Ms. Higgins advised that as they become available they would be included in the packages.

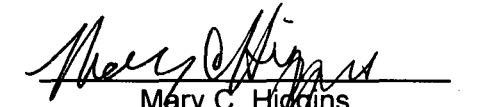
Ms. Bogin also requested an educational seminar for Retirement Board members. Ms. Higgins advised that she would research the matter and report to the Retirement Board.

There being no further business, the meeting adjourned at 10:51 a.m.



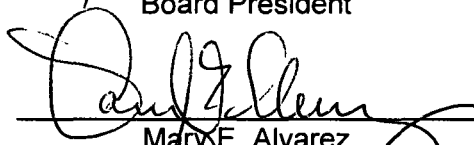
Javier Romero
Board President

12/22/14
Date



Mary C. Higgins
Assistant Retirement Plan Manager

12/22/14
Date



Mary E. Alvarez
Utility Executive Secretary

12/22/14
Date