

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

MINUTES

APRIL 6, 2011

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Michael Moore, Retiree Member
Ronald O. Nichols, General Manager
Barry Poole, Board Member

Board Members Absent:

Mario C. Ignacio, Chief Accounting Employee
Christina E. Noonan, DWP Commissioner

Staff Present:

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

Others Present:

Marie McTeague, Deputy City Attorney
Neil Rue, Pension Consulting Alliance
Mike Moy, Pension Consulting Alliance
Tad Fergusson, Pension Consulting Alliance

President Romero called the meeting to order at 10:06 a.m. following the Pledge of Allegiance.

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

Public Comments

No Public Comments were received.

1. Presentation by Pension Consulting Alliance – Asset Liability Study

Mr. Romero recognized Neil Rue of Pension Consulting Alliance (PCA). Mr. Rue distributed a supplemental document, *Developing Expected Return and Risk Assumptions*, to the Board Members and Staff. Mr. Rue explained his presentation was on PCA's Modeling Assumption discussion material provided to the Board Members in the agenda packages; the supplemental information was a detail of how PCA arrived at the assumptions for each asset class. He stated the discussion today would cover the capital market assumptions and constraints assigned to each investment class.

Mr. Rue stated asset liability studies are typically conducted every three to five years. He noted the last asset liability study for the Plan was conducted in 2007, and this is the first strategic review of the portfolio since the 2008 investment crisis. He added the purpose of the study is to determine the strategy to best position the portfolio over the long term to achieve the desired expected rate of return that is roughly consistent with that recommended by the Plan's actuary.

He reviewed the table of capital market assumptions which reflected how the asset classes were expected to perform over the next ten years.

(Mr. Moore entered the meeting at 10:16 a.m.)

Mr. Rue reviewed the table of historical return characteristics and risk patterns of the classes over several decades and the range of returns that will be modeled. He reviewed the policy mix of the current portfolio and noted the majority of the classes were equity-type classes. He stated the current portfolio, using the ten-year assumptions, would have an average compound

return of 7.4% and added a one in three chance was likely that the portfolio could underperform the inflation rate in any given year.

He compared PCA's 2.75% assumed inflation rate with the actuary's rate and explained PCA's rate was lower and based on a ten-year period as compared to the 30-year period used by the actuary. For consistency, Mr. Rue explained PCA will use the actuary's inflation rate which will increase PCA's estimated 7.4% return rate by approximately 50 basis points for all portfolios. He explained PCA will model the real return not the inflation rate since PCA will be using the actuary's inflation projection.

He reported PCA will provide their capital market assumptions and asset mixes to the actuary to determine the potential impact on the Plan's contribution levels, funding ratios, and net cash flow over time, and the results from an overall Plan perspective will be provided to the Board.

Mr. Poole asked for the basis for PCA's assumed inflation rate. Mr. Rue explained the inflation rate is expected to increase over ten years and PCA's estimate is 2.75%.

Mr. Rue reviewed how the current policy would be affected by various scenarios such as inflationary periods, recessionary periods, and growth periods, and he stated the overall strategic portfolio was biased toward favorable economic growth.

Mr. Rue next reviewed the proposed constraints which will be used to determine the range of potential allocations for each asset class. He explained how the constraints will be used to provide the Board with three to five portfolio options.

With regard to the covered call class, Mr. Poole asked if a written warning could be provided for future Board Members to remain calm if the covered call portfolio appears to be performing less favorably during good market conditions than some of the other classes.

Mr. Rue pointed out that covered calls will not be put into the equity portfolio but will be its own separate class with a separate benchmark, and the key is to separate it from equities to avoid the misconception that it is performing badly in a bull market compared to how well equities are performing. He added PCA can provide additional language in a dedicated area of the investment policy where the roles of the various classes are explained.

Mr. Rue returned to his presentation and said the next steps will be for PCA to provide the Board with three to five portfolio options and analyze the impact of each on the Plan. PCA will determine the rebalancing ranges once the Board selects a policy.

Mr. Nichols asked how often PCA and Staff interacted with regard to possible changes in allocations because of market volatility and whether it was necessary to modify procedures to enable the Board to be more proactive if necessary.

Mr. Wolfson responded that no formal process was in place; however, Staff and PCA monitor the markets and have regular day-to-day interaction and communication. As issues are identified that may impact the portfolio, they are brought to the Board for discussion.

Mr. Rue added that PCA provides risk metrics to Staff monthly and includes a section on risk factors in their quarterly performance reports to the Board.

Mr. Nichols said he would like for the Board to receive information on changes in market trends closer in time to when Staff receives information from PCA.

A brief discussion followed on the difference between using tactical allocations and risk management. Mr. Rue indicated PCA is trying to develop metrics to help determine when it might be beneficial to reduce the target percentage in an effort to be more proactive.

Following this discussion, it was the consensus of the Board to approve the assumptions and constraints as presented by PCA.

Mr. Rue indicated he will provide additional information to the Board within the next few meetings.

2. Follow-Up Discussion of General, Alternative, and Real Estate Consulting Services

Mr. Wolfson reported this item was originally brought before the Board on February 23, 2011, with a recommendation to renew the two contracts with Pension Consulting Alliance (PCA) for the Plan's General Consultant and Private Equity Consultant, and the contract with Courtland Partners (Courtland) as the Plan's Real Estate Consultant. He explained that at that meeting, the Board requested additional information prior to making a decision. He stated this item was brought back with the requested information.

Mr. Wolfson added that yesterday Staff was made aware of new information that may affect the Board's decision with respect to the PCA contracts, and he deferred the item to counsel.

Marie McTeague, Deputy City Attorney, reported that yesterday Staff received from PCA a copy of a letter sent to them from the City Attorney's Office. Ms. McTeague said she was unaware of the details of the letter, other than it was relevant information the Board would need before taking any further action on the two PCA contracts; therefore, she recommended the Board defer any action on the PCA contracts pending a briefing from City Attorney staff.

The decision with respect to the two PCA contracts was deferred to the April 13 regular Retirement Board meeting, and discussion resumed regarding extending the Courtland contract for three years.

Mr. Moore moved to adopt the extension of the contract with Courtland Partners; seconded by Mr. Nichols.

Ayes: Coffin, Moore, Nichols, Poole, and Romero

Nays: None

Absent: Ignacio and Noonan

THE MOTION CARRIED.

4. Future Agenda Items (Out of Order)

Ms. Coffin requested that reports of on-site visits conducted by PCA and by Staff be added to the agenda as regular items. She also requested standing updates on reciprocity negotiations.

Mr. Romero requested discussion of an annual evaluation of the services provided by the City Attorney's Office be placed on the agenda for the next meeting.

3. Retirement Plan Manager's Comments (Out of Order)

Ms. Bhatia reported the Board of Water and Power Commissioners approved two items yesterday pertaining to the Retirement Plan. One item was the Plan amendment to reduce the Regular interest rate to 7.75%. This item will be brought back to the Retirement Board at the next meeting for adoption and incorporation into the Plan. The second item approved by the DWP Board was to approve the selection process for the Retiree Board Member position. Ms. Bhatia stated Staff will send an announcement in the data mailers to retirees to invite applications.

Ms. Bhatia announced Staff is conducting a Mid-Career Retirement Class in the auditorium today with an estimated 200 employees in attendance.

She reported the first two of several due diligence site visits have been approved. The first trip has already occurred and was to New York to visit with Fred Alger Management, Inc., and Aetos Alternatives Management, LLC. Staff will provide a report of their findings at the next meeting. The second trip is scheduled for mid-April and will be to meet with staff from Invesco Global Asset Management in Atlanta, Georgia.

She reported Staff received approval for the actuarial cost study for the reciprocity program design for the Los Angeles City Employees' Retirement System (LACERS). A template was provided to LACERS to complete and transmit data to the actuary.

Ms. Bhatia stated Staff received a new release regarding the implementation of the retiree payroll processing component of the new system. Once testing is completed, Staff will conduct parallel processing for approximately two months beginning in July.

In connection with the reciprocity program, Ms. Coffin asked Mr. Nichols if the current hiring freeze affected City transfers. Mr. Nichols said the freeze affects all positions regardless of where people transfer from. He stated all exemption requests will require Senior Assistant General Manager approval followed by General Manager approval.

With no further business to discuss at this time, the meeting adjourned 11:19 a.m.



Javier Romero
Board President

5/11/11


Date



Sangeeta Bhatia
Retirement Plan Manager

5/11/11

Date



Julie Escudero
Utility Executive Secretary

5.11.11

Date