

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

MINUTES

OCTOBER 10, 2012

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Regular Member
Ronald O. Nichols, General Manager
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
Mary Higgins, Assistant Retirement Plan Manager
Scott Vargas, Senior Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

President Romero called the special meeting to order at 8:34 a.m.

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

Public Comments

Mr. Romero commented that at the Board of Water and Power Commissioners meeting held on October 4, 2012, the Retirement Plan office received a certificate of appreciation commending the work and assistance provided by the Disability section for the Workers Compensation 2012 California Sate Audit.

1. Request for Approval of Minutes – September 19, 2012, Special Meeting

Mr. Rozanski moved that the Board approve Item 1; seconded by Mr. Poole.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

The Board met in closed session at 8:37 a.m.

**2. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a) --
Conference with Legal Counsel -- Existing Litigation – *Romero et al. v. City of Los Angeles et. al.*, Los Angeles Superior Court Case No. BC449834.**

The Board met back in open session at 9:11 a.m. with action taken.

3. Discussion of Suspension of Reciprocity Program

Ms. Bhatia explained that this item was previously brought before the Board at the July 25, 2012, meeting and was approved. The resolution is being brought back because the 30-day period for the resolution to be sent to the Board of Water and Power Commissioners was not met.

Ms. Bhatia explained that the resolution suspends the reciprocal arrangement between the Plan and the Los Angeles City Employees Retirement System (LACERS), and clarifies the Other Governmental Service provision of the Plan. She stated the resolution states that the Plan be amended to suspend the reciprocal arrangement between the two retirement systems effective upon final adoption by the Board. By adopting this resolution, the Board approves the amendment to section IV of the Plan. Upon approval at this meeting, the resolution will be sent to the Board of Water and Power Commissioners for their approval, and then brought back to the Board for final adoption.

Mr. Rozanski requested for clarification of the time period covered by the actuarial study. Mr. Nichols asked the resolution be amended to clarify the period covered.

Mr. Poole commented that there is a continued liability on the Plan. He believes it is the Board's fiduciary responsibility to pursue this action.

Mr. Rozanski moved that the Board approve Item 3; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

4. Discussion of Revision to Active International Equity Investment Guidelines

Mr. Vargas provided the background for the proposed investment guidelines for the Active International Equity managers to be allowed to use input options. Currently the managers are allowed to use forwards, which are more restrictive. Options provide more flexibility whether it is a call or put because they have the right to buy the currency, but not the obligation.

The revision was brought up because MFS purchased put options against the Japanese Yen. They notified Staff and reimbursed the Plan for the trade. Shortly after, MFS requested to be allowed to use put options for the added flexibility. Staff and Pension Consulting Alliance (PCA) evaluated the request and recommend that International Equity managers be allowed to use options in addition to forwards.

David Sancewich from PCA explained that currently MFS is the only active International manager that uses currency hedging within their portfolio and PCA believes revising the guidelines to allow other International equity managers the flexibility to use options should they start currency hedging.

Mr. Rozanski asked for clarity regarding MFS' exposure to Japan. Mr. Sancewich responded that the Japanese Yen has appreciated, but their economic outlook has been dire. MFS is concerned that at some point, there will be a snapback, and with a 10% exposure to Japan there can be a dramatic downfall for the portfolio. Mr. Rozanski stated that this is a put option. Mr. Sancewich replied that he does not see call options as being readily used, but it will be there for managers to use as a defensive hedge. Mr. Rozanski asked for an example of when a manager would use a call option. Mr. Sancewich replied that a manager could use the call

option as a way to gain currency exposure in a country while building the equity exposure. He stated managers can use a call option to help mitigate the risk in their portfolio if they think the currency is going to bounce around. PCA evaluated the situation and sees put options as a good line of defense. They considered that managers could also use call options for defense if its 25% notional.

Mr. Nichols asked what other retirement plans of the same size have in their guidelines regarding put options. Mr. Sancewich replied that most large sized plans allow calls, puts, and forwards. Mr. Nichols asked PCA for reports monitoring MFS' use of put options in the portfolio.

Mr. Rozanski moved that the Board approve Item 4; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

5. Ratification of the Board's Selection of Global Real Estate Securities Managers

Mr. Vargas provided the background for the ratification of the Board's decision to hire Dimensional Fund Advisors and European Investors Incorporated as the new Global Real Estate Securities managers for the Plan, which was approved at the September 19, 2012, Special Board meeting.

Mr. Rozanski moved that the Board approve Item 5; seconded by Mr. Nichols.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

6. Discussion of Service Provided

Ms. Bhatia provided the background of how the Retirement Plan office is requesting approval to conduct surveys of member services. Conducting surveys is a best practice of the pension industry. With the implementation of the new system and in preparation for planning the next module for web access services for members it would be beneficial to determine how well the Retirement Plan office is doing and which services need to be improved or addressed. Staff would like to use Survey Monkey, a web based survey tool in order to keep the cost low and because it allows the work to be done in house.

Mr. Poole asked who will come up with the survey questions. Ms. Bhatia replied that Survey Monkey provides sample questions and Staff will make up the questions. Mr. Romero requested that the Board be able to review the questions in case they have anything to add. Ms. Bhatia stated that Staff will provide a plan to the Board of how they will proceed with the surveys.

Mr. Rozanski moved that the Board approve Item 6; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

7. Annual Presentation by MFS Institutional Advisors, Inc. - International Developed Equity Manager

Carolyn Lucey and Camille Humphries from MFS Institutional Advisors, Inc. presented the annual MFS International Value Equity report. Ms. Lucey thanked the Board for approving the expanded investment guidelines and that MFS would use options for defensive currency hedging. Ms. Lucey provided a brief organizational update.

Ms. Humphries focused her portion of the presentation on the portfolio. She explained that MFS' main objective is to outperform the MSCI World ex U.S. IMI ND Index over a market cycle of three to five years with below average volatility. She explained that MFS invests rather than speculates, analyzes rather than forecasts, and focuses on the downside risk in order to meet their goals. For three years, 2008 through 2011, the portfolio outperformed the index by over a 1,000 basis points. The portfolio performed at 2.7%, while the MSCI World ex US Value IMI performed at 3.3% and the MSCI World ex US IMI performed at 2.9% for the month of August.

Ms. Humphries went on to explain the performance drivers by region, industry, and individual stock selection for August. She then stated the top ten portfolio holdings, their characteristics, and noted these are high quality companies across diverse sectors. She also highlighted that the turnover of the portfolio is at 13% for the year and that the standard deviation and the beta are below the index. She also summarized the region and country weights of the portfolio and explained the reasoning for requesting put options for their investment in Japan. Ms. Humphries reiterated that MFS invests in strong companies and the portfolio is well positioned.

8. Annual Presentation by Pyramis Global Advisors Trust Company - International Developed Equity Manager

Sue Curran, Michael Strong, and Brian Hoesly from Pyramis Global Advisors presented their international growth strategy. Ms. Curran provided a brief organizational update. Mr. Strong provided information on the Pyramis team approach for managing, their investment process, and background on the market.

Mr. Hoesly explained that on a gross basis the portfolio outperformed the benchmark by 167 basis points and 135 basis points after fees for the year ending August 31, 2012. The portfolio did well in Europe, Japan, and Canada, but struggled in the Pac Basin, which is 12% of the portfolio. Pyramis is confident with Henry Chan, the portfolio manager for the Pac Basin, despite his performance since starting. In Europe the portfolio outperformed by nearly 200 basis points, Japan just over 300 basis points, and Canada just over 200 basis points. Mr. Hoesly added that Pyramis is working hard to get the Pac Basin to return to a positive performance.

Mr. Hoesly highlighted three of the top performers, Anheuser Busch InBev, Japan Tobacco, and Inditex, which are long-term holdings of the portfolio. These are examples of the types of companies Pyramis likes to have in their portfolio because they have strong global market positions, strong management, and transparent and sustainable earnings growth. He then summarized the positioning of the portfolio from a sector perspective.

9. Reports for Reference

Investment Reports for August 2012

a) Summary of Investment Returns as of August 31, 2012

b) Market Value of Investments by Fund and Month as of August 31, 2012

c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of August 31, 2012

d) Summary of Contract Expirations

This item was for reference only with no discussion.

10. Retirement Plan Manager's Comments

Ms. Bhatia reported that the Retirement Plan office is currently busy with the annual financial audit being conducted by Simpson and Simpson. She expects the audit report will be presented to the Audit committee in November. She stated the Department's annual audit was being conducted by KPMG and the Retirement Plan is providing information to KPMG's requests.


She noted, at the Regular Board meeting on September 26, 2012, it was reported that there is a California Public Records Act (CPRA) request from the Los Angeles Times and Staff is busy gathering extensive pieces of information that is required. Retirees will be notified by a message on the data mailers.

Ms. Bhatia reported this year's 1099s will be printed out through the new system. She stated that there continues to be a backlog of retirement estimates, with about 140 retirement estimates still needing to be processed. She explained it takes a lot of time because of the data clean up that must be done when performing estimates. The Retirement Plan Office is exploring different ways to expedite the estimate process. She explained that there are many vacancies in the office, such as, two Principal Clerk Utility (PCUs) and two Management Analysts.

11. Future Agenda Items

Mr. Poole requested at the previous Board meeting, that there be an item regarding when Mary Higgins, Assistant Retirement Plan Manager, was put on special assignment working for the City of Los Angeles. He requested a report of how her time was spent and if the Retirement Board will be reimbursed.

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



Javier Romero
Board President

10/24/12


Date



Sangeeta Bhatia
Retirement Plan Manager

10/24/12

Date



Julie Escudero/Erin Carone
Utility Executive Secretary

10/24/12

Date