

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

**December 10, 2008**

**Board Members Present:**

Javier Romero, President  
Eugene Canzano, Vice President  
Cindy Coffin, Board Member  
Michael Moore, Retiree Member

**Board Members Absent:**

H. David Nahai, General Manager  
Ronald Vazquez, Chief Financial Officer  
Forescee Hogan-Rowles, Commissioner

**Others 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  
Alan Manning, Assistant City Attorney  
Michael Wilkinson, Deputy City Attorney  
Neil Rue, Pension Consulting Alliance

President Romero called the meeting to order at 9:08am following the Pledge of Allegiance.

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

**PUBLIC COMMENTS**

President Romero welcomed new employees David Stielow and Rebecca Calderon, and congratulated Valerie Taylor-Ragler, Liz Jasso, Rosann Lopez, and Kim Tran for their promotion to the new classification of Benefits Specialist.

There were no public comments.

**1. Approval of Minutes:**

**Regular Meeting Minutes for February 6, 2008**  
**Regular Meeting Minutes for May 22, 2008**  
**Regular Meeting Minutes for June 18, 2008**  
**Regular Meeting Minutes for July 2, 2008**  
**Regular Meeting Minutes for August 20, 2008**  
**Regular Meeting Minutes for September 3, 2008**  
**Audit Committee Minutes for December 19, 2007**  
**Audit Committee Minutes for July 16, 2008**  
**Audit Committee Minutes for October 22, 2008**

2. **Termination from Monthly Rolls**  
**Resolution to Terminate Monthly Allowances from the November 1, 2008, Retirement Roll**  
**Resolution to Terminate Monthly Allowances from the December 1, 2008, Retirement Roll**  
**Resolution to Terminate Dennis P. McCormick from the October 2008 Permanent Total Disability Roll as a Result of His Death**  
**Resolution to Terminate Imelda Stark, as a Result of Her Death, as Trustee for Agnes F. Townsend and Appoint Terry Good as Guardian of Agnes F. Townsend**  
**Resolution to Terminate Margaret Walker from the November 2008 Survivorship Roll as a Result of Her Death**

Mr. Moore moved approval of items 1 and 2. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore  
 Nays: None

3. **Report of Payment Authorizations for October 2008**
4. **Report of Payment Authorizations for November 2008**
5. **Notice of Deaths for October 2008**
6. **Notice of Deaths for November 2008**
7. **Summary Investment Returns as of October 31, 2008**
  - a) **Market Value of Investment by Fund and Month as of October 31, 2008**
  - b) **Market Value of the Retirement, Death and Disability Funds and Retiree Health Care Fund as of October 31, 2008**
  - c) **Investment Returns as of October 31, 2008**
8. **Report on Status of Insurance as of October 31, 2008**
9. **Report on Organizational Changes**
  - a) **INTECH**
  - b) **NorthPointe Capital**
  - c) **The Boston Company**
  - d) **MFS Investment Management**
  - e) **PAAMCO**
  - f) **Glass Lewis Acquisition of Washington Analysis Corp**
10. **Report from City Attorney on Conviction of Mel Lifschitz, Partner in Bernstein, Liebhard & Lifschitz, one of the Securities Litigation Counsel to the Board**

Mr. Moore moved that the above items 3 through 10 be received and filed. The Motion was seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore  
Nays: None

## **11. Annual Actuarial Valuations - Presentation by the Segal Company**

President Romero recognized Mr. John Monroe of the Segal Company.

### **a) Disability Fund as of July 1, 2008**

Mr. Monroe began with presenting the review of the Disability Fund. He stated the total reserve for the disability benefits had increased from \$35.5 million on June 30, 2007, to \$39.6 million on June 30, 2008, and he noted member contributions amounted to approximately \$400,000 for the 2006-2007 fiscal year and approximately \$425,000 for the 2007-08 fiscal year. He also noted Department contributions amounted to approximately \$8.4 million for 2006-07 fiscal year and approximately \$14.2 million for the 2007-08 fiscal year. Mr. Monroe indicated the recommended Department contribution rate for the Temporary Disability Benefit Fund had decreased from \$2.18 per \$100 of compensation to \$1.70 per \$100 of compensation, primarily due to the increase in the balance of the General Reserve from June 30, 2007 to June 30, 2008, as a result of the increased Department contribution rate for 2007-08. He further noted the recommended Department contribution rate for the Permanent Disability Fund remained at \$0 per \$100 of compensation since the reserve is substantially above the target.

Mr. Canzano moved approval of Resolution 09-44 to adopt the Actuary's recommendations regarding the Disability Fund. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore  
Nays: None

### **b) Death Benefit Fund as of July 1, 2008**

In regards to the Death Benefit Fund, Mr. Monroe stated that Segal recommended the Department continue to suspend contributions to the Family Death Benefit, and recommended no change to the Supplemental Family Death Benefit. Segal also recommended the Department continue to suspend Insured Live Contributing Members contributions but continue with the \$1 biweekly member contribution. Lastly, for the Insured Live Noncontributing Members, Segal recommended the Department either 1) increase the Department contribution rate from \$1.30 to \$1.60 per \$100 of monthly retirement benefit to allow the target reserve, which had fallen below the target level, to be achieved within four years; or 2) increase the Department contribution rate to \$1.64 per \$100 of retirement benefit to allow the target reserve to be achieved by the end of fiscal year 2008-09.

Mr. Canzano moved approval of Resolution 09-45 electing to adopt the Department contribution rate of \$1.64 per \$100 of the monthly retirement benefit. The Motion was seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore  
Nays: None

**12. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(b), to Confer with Legal Counsel Regarding a Matter in Which, Based on Existing Facts and Circumstances, there is a Significant Exposure to Litigation Against the Board, and Pursuant to Government Code Section 54956.9(c), to Confer with Counsel in Considering Whether to Initiate Litigation in that Matter**

The Board recessed at 9:36 a.m. to discuss the closed session item.

The meeting reconvened at 10:44 a.m.

**13. Presentation by Courtland Partners Regarding Investment Opportunity in Mesa West Real Estate Fund**

Mr. Romero recognized Ms. Lourdes Canlas and Mr. Sanjiv Kala of Courtland Partners, and Messrs. Mark Zytko and Jeff Friedman of Mesa West Capital.

Ms. Canlas recommended the Plan invest up to \$20 million in the Mesa West Real Estate Income Fund II (Mesa West REII). She stated that a loan origination or debt fund provided a good investment opportunity due to the recent credit crunch and lack of liquidity in the credit markets. She also stated that there is no provision for General Partner (GP) catch up and only until investors receive all their capital plus 8% will the GP participate in the returns. She indicated Mesa West's key professionals had previous experience in the debt market and extensive experience in real estate finance and law.

Mr. Zytko provided an overview of Mesa West RE II Fund stating that its investment strategy was focused in the Western U.S., middle-market structured finance, and the investment objective was to provide investors attractive current income, capital preservation, and superior risk-adjusted returns. The offering size is \$400 million with the target IRR net of 12-14% to investors.

In response to Ms. Bhatia's inquiry regarding other government pension plans being invested in the fund, Mr. Friedman responded that there were a few including the State of Wisconsin, the Los Angeles City Employees' Retirement Plan, San Joaquin County, the State of Kentucky, the State of Indiana, the State of West Virginia, and the Chicago Police and Fire. Ms. Canlas added that the majority of these investors were also clients of Courtland Partners.

Mr. Moore moved approval of Resolution 09-46. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore  
Nays: None

## **16. Presentation on the Oaktree Distressed Fund - Private Equity (Out of Order)**

Mr. Romero recognized Mr. Tad Fergusson of Pension Consulting Alliance (PCA), and James Ford, Michael Harmon, and Anthony Harrington of Oaktree Capital Management (OCM).

PCA representatives recommended a commitment of up to \$16 million from the Retirement Plan and \$2.5 million from the Retiree Health Benefits Fund in Oaktree Principal Fund V (PF V) and indicated that PF V represented a strong opportunity to invest with an experienced team targeting control-oriented transactions arising from middle-market companies in financial distress.

Mr. Harrington provided an overview stating that OCM was a hybrid between private equity firms and distressed debt investors. He noted the fund was different from traditional private equity opportunities in that it used proprietary public diligence techniques, avoided auctions, purchased from sellers who mostly wanted to exit, relied less on leverage focusing more on seniority, possessed expertise in the bankruptcy process, and employed greater portfolio diversification. He stated OCM also had unique access to deal flow and debt markets and had synergy with distressed debt and high yield bond groups. He noted they also had the ability to take toeholds in distressed debt, and reacted quickly to opportunistic situations.

He further explained that in comparison to distressed debt investors, OCM targeted classes that would receive a significant share of equity in a restructuring to gain control of companies, to pursue primarily high-quality companies that are leaders in their respective markets and could apply a long-term perspective, and they usually sought large, illiquid positions. He noted they also performed in-depth due diligence on each credit, and created post-restructuring value utilizing private equity skills.

In response to Mr. Romero's inquiry regarding whether the firm commits its own capital to the fund, Mr. Harrington responded that their commitment is 2.5%. Mr. Romero also inquired if any other public sponsors were committed to the fund, to which Mr. Harrington stated that they are still in the early stages of fundraising and currently do not have any commitments; however, they will follow up with a list at a later date.

Mr. Moore moved approval of Resolution 09-47. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore  
Nays: None

## **17. Recommendation to Remove The Boston Company-Emerging Markets from Watch Status (Out of Order)**

President Romero recognized Mr. Neil Rue of PCA. Mr. Rue explained that The Boston Company was placed on watch status in August 2006 for failure to meet the short-term performance criteria as specified in the investment guidelines. He stated that both Staff and

PCA concur that the Board remove The Boston Company from watch status since they now met the short-term performance criteria for the quarter ending September 30, 2008.

Mr. Moore moved approval of Resolution 09-41 removing The Boston Company from watch status. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore

Nays: None

#### **18. Recommendation to Place Paradigm on Watch Status (Out of Order)**

President Romero recognized Mr. Neil Rue of PCA. Mr. Rue stated that Staff recommend and PCA concurs that Paradigm Asset Management (PAM), be placed on watch status for not meeting the minimum short-term performance criteria for the quarter ending September 30, 2008.

Mr. Moore moved approval of Resolution 09-48 placing PAM on watch status. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore

Nays: None

#### **19. Resolution to Authorize Necessary Expenses in Connection with Filing for Tax Determination Letter Under Cycle C – Discussion and Possible Action**

Mr. Canzano commented that the last “whereas” on resolution 09-49 was duplicated and requested it be stricken.

Mr. Canzano moved approval of Resolution 09-49 with the last “whereas” being stricken. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, and Moore

Nays: None

Mr. Moore left the meeting at 11:57 a.m., which resulted in the loss of the quorum. The Board briefly recessed until 12:03 p.m., at which time the existing members continued to hear the remaining non-action items.

#### **14. Presentation by Pension Consulting Alliance, Inc. – Private Equity Performance Review as of June 30, 2008 (Out of Order)**

Mr. Romero recognized Mr. Tad Fergusson and Mr. Michael Moy of PCA.

Mr. Fergusson presented an overview of the private equity program for the quarter ended June 30, 2008. He began by stating that the program made a commitment of \$100 million to two secondary market fund-of-funds and two primary market fund-of-funds. He stated that the Plan’s portfolio was relatively well diversified by sectors and based on reported values and was invested in investment vehicles such as buyout (58.2%), venture capital (21.5%), special situations (19.8%), and mezzanine (0.4%). He added that these

exposures are an aggregation of the underlying partnerships within the secondary market fund-of-funds, and sector diversification is expected to be maintained as the Plan's current partnerships continue to invest capital and additional primary market fund-of-funds are added to the program and begin funding.

#### **15. Presentation by Pension Consulting Alliance, Inc. – Market Update as of November 2008 (Out of Order)**

Mr. Fergusson also provided an overview of the market update as of November 2008. He stated that fundraising has remained relatively strong through September 2008 despite the overall difficulties in the public markets; however, it is expected to slow over the near-term. He added the buyout activity declined dramatically resulting in lower debt levels and lower purchase price multiples and more conservative transaction structuring. He noted an outstanding record amount of total leveraged loans and high yield securities exist resulting in expected default rate increases. He added the venture capital investment activity was relatively stable but the exit environment declined dramatically. He further added that historically, during periods of economic slowdown, private equity investments have performed well.

In addition, Mr. Moy stated that the Water and Power Employees' Retirement Plan's (WPERP) private equity program is relatively new and PCA would not be bringing in any new funds for commitment given the market. He added that because of the program being new, it does not have the liquidity issues of larger funds that must meet capital calls with no real source of cash.

#### **20. Retirement Plan Manager's Comments**

Ms. Bhatia informed the Board that on December 2, 2008, the Board of Commissioners adopted the resolution authorizing LADWP employees to make pre-tax contributions to the Water and Power Employees' Retirement Plan paid by the Department, retroactive to July 1989 and ratifying an existing practice. She explained that this provision had been in place for approximately 20 years; however, no evidence had been found of a resolution approval by the Board of Commissioners. She noted that both the Plan's tax attorney and Pension attorneys had advised that the Board of Commissioners approve the resolution.

In addition, Ms. Bhatia provided an overview of the 2008 highlights that included implementation of a new plan amendment regarding death benefits, implementation of a new organization structure to create career ladders within the retirement office, the hiring of a new tax attorney, the first module of testing a new system that had helped reduce backlog of retirement estimates, the beginning of the implementation of a new document imaging system, the completion of 17 contracts, the sophisticated and detailed reporting of investment reports and more due diligence and monitoring of investment managers, and the completion of various audits.

#### **21. Future Agenda Items**

Mr. Romero requested an overview from PCA of the long-term investment goals for 2009 in the second meeting of January. He also requested Mr. Manning provide a copy of the


updated ethics policy from the Fair Political Practices Commission and the interpretation of these regulations from the City Ethics Commission, when finalized.

Mr. Canzano suggested a long-term objective be established for retirement seminars to be provided for mid-career employees in order to inform employees of their retirement options.

The meeting adjourned at 12:49 p.m.

  
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JAVIER ROMERO  
President

  
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SANGEETA BHATIA  
Retirement Plan Manager

  
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JULIE ESCUDERO  
Utility Executive Secretary