

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

**MINUTES**

**April 15, 2009**

**Board Members Present:**

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

**Board Members Absent:**

Forescee Hogan-Rowles, Commissioner  
Jeff Peltola, Chief Financial Officer  
H. David Nahai, General Manager

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Mary Higgins, Asst. Retirement Plan Manager  
Scott Vargas, Sr. Investment Officer  
Julie Escudero, Utility Executive Secretary

**Others Present:**

Michael Wilkinson, Deputy City Attorney  
Neil Rue, Pension Consulting Alliance  
Sara Bernstein, Pension Consulting Alliance

President Romero called the meeting to order at 10:01 a.m. following the Pledge of Allegiance.

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

**Public Comments**

There were no public comments.

**1. Termination from Monthly Rolls**

Mr. Canzano moved for approval of Item 1; seconded by Ms. Coffin and carried unanimously after the following vote:

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

Mr. Canzano acknowledged the death of Stanley Curtis.

**2. Report of Payment Authorizations for March 2009**

**3. Notice of Deaths for February 2009 and March 2009**

- 4.**
- a) Summary of Investment Returns as of March 31, 2009
  - b) Market Value of Investments by Fund and Month as of March 31, 2009
  - c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of March 31, 2009

**5. Report on Status of Insurance as of April 7, 2009**

**6. Report on Personnel Changes at INVESCO Global Asset Management, Inc.**

Mr. Moore requested an update on the negative returns for Fisher Lynch. Mr. Vargas stated it was a J-Curve effect where the initial return rate was low but then increased with time.

In response to Mr. Moore's inquiry regarding the footnote in the insurance summary pertaining to insurance requirements for real estate, private equity, and hedge fund managers, Ms. Bhatia explained that all investment managers must disclose their coverage, but the requirements varied among the different types of managers. She agreed that Staff would explore modifying the language.

Mr. Moore also asked for any news regarding the Simpson & Simpson insurance matter, and Ms. Bhatia explained Simpson & Simpson had now been paid, and Staff would provide another report back to the Board.

Mr. Canzano moved for approval of Items 2 through 6; seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, and Coffin

Nays: None

## **7. Presentation by Courtland Partners**

- a) Direct Investments**
- b) Current Portfolio Exposure**

Ms. Bhatia provided background on this item and stated at a previous meeting, the Board requested information on the viability of directly investing in real estate and information on the Plan's real estate exposure in Los Angeles.

Lourdes Canlas, Managing Director from Courtland Partners, reiterated they were responding to two inquiries from the Board and noted Jacinta de Rivera and Sanjiv Kala were in attendance to speak on direct investing and exposure in Los Angeles, respectively.

Ms. de Rivera explained direct investments were typically made through pooled (commingled) funds or separate accounts. She described the two types of separate accounts; 1) non-discretionary, wherein the Board has control and approval of investment decisions; and 2) discretionary, wherein the Real Estate Managers make the investment decisions. She added the Board may also utilize a partial discretionary account wherein certain decisions are made by the Board and certain decisions are made by the Real Estate Managers. Ms. de Rivera noted Courtland recommended maintaining the existing policy of using pooled or commingled funds. She added given that the Plan's real estate portfolio was fairly new, Courtland believed commingled funds would be the best method of capturing the most diversity and potential returns. Another option, she noted, would be purchasing a specific building or owner-occupied buildings, but not as part of the real estate portfolio, but rather as a fund expense to reduce fiduciary risks.

Ms. Canlas then introduced Sanjiv Kala, who spoke on the Plan's exposure in California specifically in Los Angeles County and Los Angeles City. Mr. Kala stated the Plan's real estate exposure was valued at approximately \$110 million representing approximately 2.6 percent of the Plan's total assets. He added the Plan had 28 percent of exposure to California, of which 11 percent was in Los Angeles County and 2 percent was in Los Angeles City. He noted that Courtland recommended the Plan diversify its portfolio, at this early stage, and not focus in a particular area.

Mr. Romero agreed with Mr. Kala's suggestion and asked if the amount of exposure in one particular region was limited. Ms. Canlas responded she did not recall the maximum limits but guesstimated 35-40 percent would be the most prudent way to achieve diversification.

## **8. Discussion of Commission Recapture Program**

Ms. Bhatia stated in a previous meeting, Board Members asked Staff to come back with details on how the program, which would direct commission rates from domestic and international trades back to the Plan, would work.

Mr. Romero acknowledged Teri Noble-Grumm, Vice President of BNY ConvergeEx Group, and Vinod Pakianathan, from the Plexus Plan Sponsor Group.

Ms. Noble-Grumm provided a summary of the Program and demonstrated how it would direct a percentage of trade commissions into the Program, and then rebate a percentage back to the Plan. She explained how it would save on commission costs and still leave a percentage of the commission to cover program and research costs.

Mr. Romero asked how cost savings or value added would be tracked and Ms. Grumm responded she would provide quarterly reports showing hard dollars back to the Plan.

Mr. Pakianathan explained how the Plexus Group would measure and track costs and performance.

Ms. Bhatia noted the recommended Board Resolution language currently stipulated that a specific percentage would be directed to the Program, but Staff would modify it to indicate a 20 percent to 30 percent range instead. Ms. Noble-Grumm suggested it also read that it would be based on best execution. Ms. Bhatia also clarified the Program would only apply to equities.

Mr. Moore moved for approval of Resolution 09-91, as modified; seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, and Coffin

Nays: None

## **9. Discussion of Investment Policy Change Pertaining to Fixed Income Investments**

Ms. Bhatia provided background and stated the current investment guidelines do not permit fixed income managers to convert debt securities into equity positions. She explained that fixed income managers had reported that frequently in the current market environment, the securities were downgraded to levels where a restructuring of the debt was necessary, and this restructuring could involve conversion of debt securities to equity securities. Neil Rue, from Pension Consulting Alliance (PCA), was present to address the Board.

Mr. Romero asked Mr. Rue why the language was not included in the initial policy. Mr. Rue responded that the fixed income markets had changed dramatically and it was occurring more frequently now than in prior investment cycles. Mr. Romero also asked if there was something standard in other pension plans. Mr. Rue explained what was happening with our Plan was also happening more frequently with multiple industries and multiple managers, and PCA recommended that language be added in the investment guidelines to permit debt conversions.

Mr. Moore asked if the cap would be ten percent. Mr. Rue said he was unsure of the exact percentage; however, it would include a time limit and extent limit, which would give managers some flexibility but not allow them to become equity managers. In response to Mr. Wilkinson's question if the cap was per manager or per asset allocation, Mr. Rue responded it was per manager.

Mr. Rue also acknowledged Kay Ceserani and David Sancewich from PCA, who were working closely with Plan Staff.

Mr. Moore moved for approval of Resolution 09-92 to amend the policy for fixed income managers; seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, and Coffin

Nays: None

#### **10. Discussion of Investment Policy Change Pertaining to International/Emerging Market Equity Investments**

Ms. Bhatia explained SEC Rule 144A and noted the current investment guidelines authorize fixed income high yield managers only to purchase 144A securities with some limitations. She stated that PCA had advised that making a change to the guidelines to permit international equity managers to purchase 144A securities would provide some flexibility to purchase and sell foreign securities in the U.S. capital markets.

Neil Rue from PCA stated approving the resolution would allow international equity managers with registration rights to trade 144A securities and would limit managers without registration rights to 10 percent.

In response to Mr. Moore's question involving registration, Mr. Rue explained all 144A securities are intended to become public with imminent registration, and those without registration rights are expected to become public at some time in the future.

Mr. Moore moved for approval of Resolution 09-93 to revise investment policy guidelines to authorize the purchase of 144A securities by international equity managers; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, and Coffin

Nays: None

#### **11. Discussion of Investment Policy Language Change Pertaining to International Securities**

Ms. Bhatia noted the purpose of bringing this item to the Board was to modify the investment policy language to clarify the definition of securities issued by foreign companies. Mr. Vargas explained that the current guidelines were unclear and allow for investments in companies registered in the U.S. but headquartered in foreign countries. He stated most of these companies conduct virtually all of their business outside of the U.S. He indicated that changing the language from ". . . all foreign securities . . ." to ". . . securities of all foreign companies . . ." would clarify the definition of securities issued by foreign companies and restrict domestic equity managers from purchasing foreign securities.

Mr. Rue concurred with the proposed change.

Mr. Moore moved for approval of Resolution 09-94 to modify investment policy language with respect to international securities; seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, and Coffin

Nays: None

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

Ms. Bhatia reported the General Manager had recently provided an update to all active and retired Plan members.

She reported the funds for alternative assets and real estate allocations were placed in the passive account managed formerly by Merrill Lynch, now BlackRock. She noted staff believed it would be prudent to restructure the cash flow to use earnings from other investment accounts, such as interests on fixed income equities, to fund ongoing benefit obligations.

Ms. Bhatia reported the first phase of the new system was on schedule, and it would be implemented by the end of May 2009.

Ms. Bhatia also reported there was a recent news report on travel expenses of the board of commissioners for the retirement boards of the City's pension plans. She stated the City Controller had been in contact regarding the travel expenses of WPERP Board Members for the last two fiscal years, and they will be conducting an audit. She added Council Member Alarcon asked DWP to provide the steps taken in connection with Board policies on Commission travel and other governance related issues.

Ms. Bhatia reported the election results for the active Retirement Board Members would be received on April 27, 2009, and presented to the DWP Board of Commissioners for their May 5 meeting and, subsequently, to the Retirement Board on May 6, 2009.

Ms. Bhatia acknowledged Board Member Canzano noting this was his last meeting as a member of the Retirement Board since he was not running for re-election.

Mr. Romero presented Mr. Canzano with a Certificate of Appreciation and thanked him for his services and contribution to the Plan and its members from 2005 to 2009. Mr. Moore echoed Mr. Romero's sentiments and also acknowledged Mr. Canzano's outstanding job as a Retirement Board Member.

Mr. Canzano, in return, acknowledged that the Board had accomplished many great things which he was proud of. He said it was an honor and a pleasure to have been a trustee and thanked the Board Members, Staff, and the Consultants for their tireless efforts and support.

Mr. Peltola arrived at 10: 50 a.m.


### 13. Future Agenda Items

No future agenda items were requested.

The meeting adjourned at 10:51 a.m.

  
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JAVIER ROMERO                      5/20/09  
President                                      Date

  
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SANGEETA BHATIA                      Date  
Retirement Plan Manager

  
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JULIE ESCUDERO                      5.20.09  
Utility Executive Secretary                      Date