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

MINUTES

July 1, 2009

Board Members Present:
Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member

Board Members Absent:
H. David Nahai, General Manager
Jeff Peltola, Chief Financial Officer

Staff Present:
Sangeeta Bhatia, Retirement Plan Manager
Mary Higgins, Asst. Retirement Plan Mgr.
Monette Carranceja, Asst. Retirement Plan Mgr.
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:
Michael Wilkinson, Deputy City Attorney
Neil Rue, Pension Consulting Alliance
Tad Fergusson, Pension Consulting Alliance

President Romero called the meeting to order at 10:03 a.m. following the Pledge of Allegiance.

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

Public Comments
President Romero welcomed new employee William Feng, who was appointed the Retirement Office's new Senior Utility Accountant B effective June 8, 2009.

1. Approval of Minutes

June 3, 2009, Governance Committee Meeting
June 3, 2009, Special Meeting
June 3, 2009, Regular Meeting

Mr. Moore requested the word "broad" in the second line of the fourth paragraph on page 1.2 of the June 3, 2009, Governance Committee minutes be changed to the word "general."

Mr. Moore moved for approval of the minutes as amended; seconded by Ms. Coffin and carried unanimously after the following vote:

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

2. Courtland Partners, Ltd. – First Quarter 2009 Real Estate Portfolio Performance Presentation

Mr. Romero acknowledged Lourdes Canlas and Jacinta de Rivera from Courtland Partners.

Ms. Canlas reported the value of the Plan's portfolio was down to $95 million. She stated approximately $43 million had been committed but not yet called, and that amount added to the current value totaled $138 million. She reviewed the composition and risk profile for the current portfolio. She noted approximately 86 percent of the investments were in core and the rest were in value, with the core investments almost equally divided between JP Morgan and PRISA. She recalled their recommendation was for 70 percent core, 20 percent value, and 10 percent opportunistic and noted they were working toward increasing the opportunistic investments and evaluating core investments.

She reviewed the property diversification and reported 40 percent office exposure; 22 percent retail exposure; and the remaining in residential, industrial, and others. She noted the portfolio's geographic exposure was 36 percent in the west and 32 percent in the east, 24 percent in the south, and 7.5 percent in the Midwest.

She provided a break-down of the leverage and noted the core category was 33 percent, and the value category was 45 percent and both were within policy guidelines. She noted CB Richard Ellis, at 93 percent, was out of range because they had only called a minimal amount of the capital committed, and had used their subscription line of credit to acquire property.

Ms. Canlas gave an accounting of the portfolio's performance and indicated the total gross return for the one-year basis was -26 percent. She explained the portfolio's value decreased by approximately 30 percent but still generated 5 percent income which was good considering the current economy. Compared to the following benchmarks: National Council of Real Estate Investment Fiduciaries (NCREIF), the Courtland Property index, and a customized index which weighs the portfolio's risk exposure; she reported the portfolio underperformed all three indexes for the current year to date, one year, and two year periods. She noted PRISA and JP Morgan, the two largest managers, showed major depreciation numbers.

Mr. Wolfson asked for a comparison of the portfolio's write-down versus NCREIF, and Ms. Canlas responded that both PRISA and JP Morgan aggressively wrote-down their properties. She estimated a one-quarter lag period and stated closer returns in terms of value decline should be reflected next quarter.

Mr. Moore asked the cause of the poor performance, and Ms. Canlas reasoned two of the factors were the type of property selected and the timing of the purchases. Mr. Moore also asked why the percentages of the portfolio composition depicted on the pie chart on page 4 differed from the percentages shown on the bar chart on the same page. Ms. Canlas explained the "Land" and "Other" categories were consolidated into the various other categories. Ms. de Rivera stated that was because NCREIF did not track land or other property types. Ms. Canlas offered to include in the next presentation another chart which would represent Land and Other and also show NCREIF at zero. Mr. Moore declined the offer and suggested instead that the charts include an explanation of the difference.

Ms. de Rivera provided an overview of the investments. She reported CBRE Strategic Partners had been able to take advantage of the distress in the market place by acquiring property at a lower selling price. She said they had been using their credit line and planned to call capital commitments later this year which would bring the leverage down. She added they had no impending debt maturity.

She reported that JP Morgan SF Fund had a $2.5 billion redemption queue at the end of the first quarter of 2009 and a $438 million contribution queue. She indicated they were not honoring all of their redemptions right now in order to maintain the cash and liquidity of the fund. She added they had maintained a healthy cash reserve and were doing fairly well in terms of their liquidity.

She reviewed PRISA, and noted the first quarter was again a record low in terms of their performance and appreciation. She indicated their leverage rose in the first quarter of 2009 to 37.1

percent, and at the end of the quarter their unmet redemptions were approximately $1.4 billion (15.9 percent of net assets).

She mentioned PRISA had made several forward commitments and were now obligated to honor the previously agreed-upon higher prices. She indicated the forward commitments and the upcoming debt maturities resulted in significant write-downs, but they were still predicting a minimal amount of positive cash liquidity.

In response to a question from Mr. Moore, Ms. de Rivera explained the increased write-downs were due to the market conditions, not the redemptions. She added Courtland was monitoring PRISA more closely because of their redemptions, cash liquidity, and write-downs. She further added that JP Morgan Strategic Property fund did not invest in forward commitments.

The next manager was PRISA II, and Ms. de Rivera described their first quarter performance as the worst in PRISA II's account history. She maintained one positive aspect in their performance was they were able to work through $168 million of debt approaching maturity. Ms. de Rivera noted PRISA II had a better cash position than PRISA but they were still being monitored.

3. Discussion of BlackRock Organization Changes

Mr. Wolfson stated the purpose of this item was to place BlackRock, Inc., on watch for organization reasons. He reported they were hired in August 2003, as Merrill Lynch, and in 2006, Merrill Lynch merged with BlackRock, Inc. He further reported that in June 2009, BlackRock decided to purchase Barclay's Global Investors which would create the largest asset manager with approximately $2.7 trillion combined assets. He added this major merger may have an impact on the Plan's passive equity account and possibly on the transition manager. He explained that BlackRock was one of the Plan's current five transition managers, and Barclay's had its own platform for transition management, and it was too soon to know if they would all be consolidated. He stated that this large merger would take at least until the end of the year to complete, and more changes could occur, so staff and PCA recommended BlackRock be placed on organizational watch status.

Mr. Moore moved for approval of Resolution 10-01 to place BlackRock on watch status; seconded by Ms. Coffin and carried unanimously after the following vote:

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

Mr. Moore asked if there was any truth to the rumors that Merrill Lynch, prior to being acquired by Bank of America, intended to sell off their interest in BlackRock. Mr. Wolfson responded Bank of America still owned a large percentage of BlackRock from that merger. Mr. Rue confirmed they owned 49.5 percent and added he had heard nothing further on that.

4. Discussion Regarding Change in Terms of the Contract with Landmark Partners Fund XIV

Mr. Wolfson provided the background on this item and explained the Plan had invested $35 million in Landmark Equity Partners Fund XIV (LEP XIV) as a secondary fund-of-funds manager. He reported that LEP XIV set a target commitment of approximately $2.5 billion and had raised approximately $1.5 billion to date. He indicated that because of current market conditions, LEP XIV had requested that all of the Limited Partnerships approve an extension to their fundraising period. He further indicated that LEP XIV had already received their approval and were now requesting that the Board consent as a matter of record.

Mr. Moore moved for approval of Resolution No. 10-02 to consent to the extension of the fundraising period for LEP XIV*; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

5. <u>Discussion of Revisions to the Terms of the Funds Held by the City Treasurer</u>

Ms. Bhatia reported that for over 20 years, the Plan has had funds maintained by the City Treasurer's Office for the purpose of funding disbursements pertaining to benefits. She noted that at the time the accounts were created, no provision was included in the original terms regarding the payment of interest, so the interest has been paid to the General Fund during all these years. She stated that Staff is requesting the Board approve Resolution No. 10-03 in order to change the terms of these accounts to interest-bearing accounts and to pay the Retirement Office interest on these accounts in the same manner as is paid to the FMIS accounts of all other City departments.

Mr. Romero asked if the Board had the option to take over those accounts from the Treasurer and put them in a custodian bank to earn interest. Ms. Bhatia replied that the funds must be deposited with the City Treasurer's Office because of the manner in which our obligations are processed - - first through DWP's central Accounts Payable system, then through the City Treasurer's Office, approved by the City Controller's Office, and then each check is signed by both the City Controller and DWP's Chief Financial Officer. A change could be made only if the Retirement Office administered its own accounts payable system specific to the plan, without the need for overview by the City Controller.

Mr. Romero asked if interest paid to the Plan would be retroactive if the resolution was approved, and Ms. Bhatia responded she did not believe so because the resolution would only give the Board the authority to pursue a change in the terms going forward and it would still require City Council approval. She stated justification would need to be provided, but she saw no reason why we should not prevail because the other pension systems receive interest on their funds.

Mr. Wilkinson agreed with the request and stated he believed a procedure should be taken to receive the interest. He added he did not know the process for the City's other pension plans (LACERS and Fire and Police).

Ms. Bhatia indicated staff had researched that and she believed the interest facility had been created for most of their accounts.

Mr. Moore asked if the interest the other pension plans receive is the exact interest being earned or an amount the Treasurer's Office determines. Mr. Wolfson responded the interest was based on the return that they received from the portfolios they manage. Mr. Moore added his opinion that the Treasurer's Office and the City Council should know if they disagree the Board will pursue other options.

Mr. Moore asked what contributed to the funds in the accounts increasing over the years. Ms. Bhatia explained the main cause was the volume of the funds moving into the accounts, and the funds basically consisted of contributions from the Department and the members.

Mr. Moore moved for approval of Resolution No, 10-03 to revise the terms of funds held by the City Treasurer; seconded by Ms. Coffin and carried unanimously after the following vote:

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

Discussion ensued regarding the effect of the movement of funds resulting from City employee transfers into the Department and the matching Department contributions.

Ms. Bhatia indicated staff prepared a report and will provide that to the Board. Ms. Higgins added the impact on the Unfunded Liability would necessitate an actuarial report which would require a special study of this component. She indicated staff could request an estimate from the actuary and provide that to the Board.

Ms. Bhatia stated that in the meantime staff could provide a report on fiscal year numbers for the Department's matching contributions.

6. Discussion of Policy with Respect to the use of Placement Agents (as discussed by Governance Committee)

Mr. Moore suggested the language in Item G concerning campaign organizations be changed to read , " . . . an employee of the City, anyone seeking to be elected to public office of the City or a member of his/her campaign organization, or ~~a member of~~ a political action committee;"

Mr. Wilkinson noted the revised language was acceptable.

Mr. Moore moved for approval of the policy with respect to the use of Placement Agents, as amended; seconded by Ms. Coffin and carried unanimously after the following vote:

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

7. Discussion of Change to the Board Meeting Schedule

Ms. Bhatia mentioned this item was requested by Mr. Peltola who asked the Board consider changing the meeting schedule to the Wednesday of the week when the DWP Board of Commissioners does not meet. Ms. Bhatia stated his concern was the lack of sufficient preparation time for the two Ex-Officio Board Members and the DWP Commission Representative when the Retirement Board and the met during the same week.

Mr. Moore stated he understood the situation and, although changing the Wednesday would impact him, he encouraged the prepared participation of all Retirement Board members so he supported the change.

Ms. Coffin indicated she preferred the Board not make a decision at this time because she currently had schedule conflicts and she needed to see if they could be changed.

Mr. Poole stated he would be willing to try the other schedule but would prefer to wait at this time.

Mr. Romero suggested the Board receive information on how often both Boards meet during the same week before they make a decision.

Ms. Bhatia said Staff will provide that information.

8. Reports for Reference

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

Mr. Moore asked if Staff could estimate where we closed yesterday, and Mr. Wolfson responded staff did not have a number yet.

9. Article of Interest

The article, "Pensions Turn to Passive", from *The Wall Street Journal,* was included for reference only.

10. Retirement Plan Manager's Comments

Ms. Bhatia reported that Staff just received word that Russell Bjorkman, Vice President of INTECH, suddenly passed away, and Staff will have more information at the next meeting.

She also noted Staff will need to come back to the Board with a report to extend the contract with INTECH to allow time to evaluate their performance and to proceed with the transition plan. Regarding the transition plan, she noted Staff is scheduled for a telephone meeting tomorrow with Neil Rue of PCA to discuss the approach to take since many of the Plan's managers are currently on watch.

Ms. Bhatia reported Staff is working with The Segal Company with respect to the annual actuarial valuation. She also added the year-end financial audit will begin soon and Staff will be meeting next week to discuss the matrix.

She reported that after an approximate three-month wait, Staff has finally received approval from executive management to fill a vacancy in the Membership Section that was created this past March. She stated this case illustrates how long it takes to fill a vacancy.

She noted the office remodeling project is scheduled to begin next week, and the first phase will be the Disability and Death Benefits Sections. Mr. Moore asked if the remodeling included the extra space the Retirement Office requested, and Ms. Bhatia replied it did not. Mr. Romero asked about the previous suggestion to move the Controllers' Office staff from their current location adjacent to the Retirement Office to another floor. Ms. Bhatia explained the area of their intended relocation was now no longer available and the Controller's staff would not be moving.

Ms. Bhatia reported Staff continued with the parallel testing on the new system and as defects were discovered, they were sent to the contractor to remedy. She added Staff is in the process of reviewing the specifications for the payee administration module and may need to extend the parallel testing period.

As far as the document imaging, she mentioned that so far Staff has scanned 24,870 cards which contained manual entries dating back to the 1940s pertaining to employees who have withdrawn their funds, moved to the City, etc. She explained the next step would be the indexing, which would have to be performed manually, and Staff was working with the IT group for disaster recovery purposes.

Ms. Bhatia indicated Staff has been working with the tax counsel with respect to plan amendments pertaining to Internal Revenue Service (IRS) compliance issues, one of which was the limit on the maximum amount of retirement allowance that a member can receive. Ms. Higgins added that the Plan currently contains a number of references to Internal Revenue codes sections, and the IRS now wants more detailed language in the Plan. Ms. Bhatia added the changes would basically consist of clarifying language and additional language to the Plan.

11. Future Agenda Items

No future items were requested.

The Board meeting adjourned at 11:14 a.m.

Javier Romero 8/5/09
JAVIER ROMERO Date
President

Sangeeta Bhatia 8/5/09
SANGEETA BHATIA Date
Retirement Plan Manager

Julie Escudero 8-6-09
JULIE ESCUDERO Date
Utility Executive Secretary