

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

**MINUTES**

**August 5, 2009**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member  
H. David Nahai, General Manager  
Jeff Peltola, Chief Financial Officer

**Board Members Absent:**

Appointed DWP Commissioner - Vacant

**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  
Alan Manning, Assistant City Attorney  
Neil Rue, Pension Consulting Alliance, Inc.  
Sarah Bernstein, Pension Consulting Alliance, Inc.  
Tad Fergusson, Pension Consulting Alliance, Inc.  
Mike Moy, Pension Consulting Alliance, Inc.

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

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

**Public Comments**

Mr. Romero acknowledged Tom Neukranz, western regional manager of ING Investment Management.

Mr. Neukranz commented on ING's recent performance improvement, and he reviewed the Plan's numbers for the second quarter of 2009 and for the month-end through July 31. He attributed the improvement to overweights in both the corporate market and the non-agency mortgage market and also to the reduced exposure to bonds with high-borrower leverage. He also invited staff to visit ING's Atlanta headquarters.

Mr. Romero asked if the numbers Mr. Neukranz referenced were net-of-fees. Mr. Neukrantz indicated they were not but he would provide that information to staff.

Mr. Moore asked if the improvement was due to depreciated securities returning to their original values or to a repositioning of the portfolio, and Mr. Neukrantz replied it was both.

**1. Approval of Minutes:**

**June 30, 2009, Governance Committee Meeting**

**July 1, 2009, Regular Meeting**

Mr. Romero noted the references to the California State Teachers' Retirement System on pages 1.3 and 1.5 of the June 30, 2009, Governance Committee Meeting Minutes should be changed to the **Ohio** State Teachers' Retirement System.

Mr. Moore requested the paragraph beginning at the bottom of page 1.3 and continuing at the top of page 1.4 of the June 30, 2009, Governance Committee Meeting Minutes be changed to read as follows:

*“ . . . he was part of an organization involved with making sure the ~~Retirement Board~~ **Board of Water and Power Commissioners** had clearer authority with respect to the appointment and removal of the ~~Plan’s Retirement plan manager~~ **Department’s General Manager** along with a number of other governance issues. He also indicated he was similarly involved in the ~~an~~ amendment process to change the structure of the Retirement Board to add a **DWP Commission-appointed** retiree representative. He explained that was **done to ensure** that was ~~management’s way to control a potential runaway board~~ because the retiree member would look to his/her peers as much as s/he would look to his/her management **background on critical long-term fiduciary issues.**”*

Mr. Moore also requested the subsequent paragraph on page 1.4 be changed to read:

*“ . . . the City Charter points to the Retirement Plan, ~~and the Plan~~, which cannot be changed first without action by the Board and then by the DWP Commission, and which contains **the most** specific language regarding the authority of the Board. . . ”*

No changes were made to the July 1, 2009, Regular Board Meeting minutes.

***Mr. Moore moved for approval of both the June 30, 2009, Governance Committee Meeting minutes (as amended) and the July 1, 2009, Regular Board Meeting minutes; seconded by Ms. Coffin and carried after the following vote:***

***For the June 30, 2009, Governance Committee Meeting:***

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

***Nays: None***

***Abstained: Nahai and Peltola***

***For the July 1, 2009, Regular Board Meeting:***

***Ayes: Romero, Coffin, Poole, and Moore, Nahai and Peltola***

***Nays: None***

**Public Comments (Reopened)**

Mr. Romero reopened Public Comments and acknowledged two new employees, Concepcion (Coni) Lamdagan and Nestor Ramos, who were both hired as Clerk Typists in the Membership Section of the Retirement Office effective August 3, 2009.

- 2. Report on Personnel Changes at INTCH Investment Management, LLC**
- 3. Report on Personnel Changes at Pacific Alternative Asset Management Company**
- 4. Report on State Street Wells Notice Meeting**

***Mr. Moore moved for approval of items 2 through 4 as Received and Filed; seconded by Ms. Coffin and carried unanimously after the following vote:***

***Ayes: Romero, Coffin, Poole, Moore, Nahai, and Peltola***

***Nays: None***

## **5. Presentation by Pension Consulting Alliance, Inc., on Private Equity Portfolio Performance for Fourth Quarter Ending December 31, 2008**

Mr. Romero acknowledged Tad Fergusson and Mike Moy from Pension Consulting Alliance, Inc. (PCA).

Mr. Fergusson pointed out this report was for the 2008 year-end performance. He explained private markets performance is reported on a lagged basis for private equity and real estate, and that year-end audited financials are reported on an even more lagged basis, so all of the audited information was unavailable until July. He reported that the Plan had invested \$130 million in committed capital, \$63.4 million had been drawn down, and \$10.6 million was distributed back to the Plan, with \$43.2 million remaining in reported value. He reviewed the performance and noted the valuation of the portfolio declined approximately \$8.5 million as a result of the challenges in the public markets; however, since year-end, an additional \$45 million in commitments had been made, so significant progress has been made toward meeting the longer term goals.

Mr. Fergusson highlighted the portfolio structure and stated the portfolio had approximately 67% exposure to secondary market fund-of-funds, 23% to primary market fund-of-funds, and 10% to direct partnerships.

Mr. Fergusson also reviewed the portfolio's diversification and indicated the portfolio had exposure to the buyout sector at 59%, followed by special situations at 21%, and venture capital at 20%.

Mr. Moore asked Mr. Fergusson to describe the outlook for each of those sectors, and Mr. Fergusson stated the most opportunistic sectors, in his opinion, were secondary market fund-of-funds because investors are selling holdings and prices have come down significantly. He noted the Lexington re-up was a good example. He stated the other segment would be distressed strategies where managers are implementing various control-oriented strategies to participate in that market; HRJ fund-of-funds has exposure to this strategy. He further stated the primary market fund-of-funds are focused on venture capital which would provide a longer, slower, evolving portfolio. He added that he believed the Plan's portfolio is very attractively positioned going forward.

## **6. Discussion of Change to Board Meeting Dates**

Ms. Bhatia mentioned that at the last Board meeting Mr. Peltola had suggested the Retirement Board meeting dates be changed from the first and third Wednesdays, which were usually the same week at the DWP Commission meetings, to the second and fourth Wednesdays to provide the Board Members who also attend the DWP Commission meetings more time to better prepare for the Retirement Board meetings. She noted staff was asked to find out if PCA representatives would be available if the dates were changed, and she reported they will be able to attend. She asked the Board to provide direction.

A brief discussion by the Board ensued.

***Mr. Moore moved for approval to change the Board meeting dates to the second and fourth Wednesdays of the month, effective September 2009; seconded by Ms. Coffin and carried unanimously after the following vote:***

***Ayes: Romero, Coffin, Poole, and Moore, Nahai, and Peltola  
Nays: None***

Ms. Higgins noted a resolution might be needed to change the meeting schedule, and Ms. Bhatia stated staff would find out and bring a resolution back at the next meeting if necessary.

## **7. Update from the Retirement Plan's City Attorney on Meeting with the Department's City Attorney**

Alan Manning, Assistant City Attorney for the Retirement Office, reported he has had a number of discussions including several face to face meetings with the City Attorney staff assigned to the Department and, so far, they have been unable to come to a consensus on the governance issues that have surfaced. He stated he also had a discussion with outside fiduciary counsel and noted further discussions with them will be held. He stated the Plan's attorneys will continue to work with the other lawyers in the City Attorney's office to try to resolve the governance issues. He said he did not believe they have reached the end of the process, and he believes the clearest path towards resolution of these issues is the cooperative efforts of Department management all around. He further pointed out that resolution of these issues is not strictly with the lawyers.

Mr. Nahai asked if another meeting between the lawyers had been scheduled, and Mr. Manning responded the most recent discussion took place several days ago and further discussions would be held; however, no date had been set yet for the next meeting.

Ms. Coffin asked if this concerned the most recent issue of the Retirement Office budget going through the DWP Board of Commissioners, because at the DWP Commission meeting held yesterday, August 4, the Department's City Attorney Mr. Brown had stated the staff from the two City Attorney offices had "agreed to disagree." Mr. Manning responded he disagreed with that statement. He emphasized he had never said that, and he said Mr. Brown was putting words into his mouth. Mr. Manning said they have not come to an agreement at this point, but he is still hopeful they can, and he reiterated he did not agree with the statement that they had agreed to disagree.

Ms. Coffin stated she believed it would be best if one of the counsel firms which the Board has on retainer would provide an outside opinion since she believed the Retirement Board and the DWP Commission both had different opinions. Mr. Manning indicated he did request written advice from Mr. Joe Wyatt, from one of the outside counsel firms, but he was unsure how quickly it would be received. Mr. Romero stated he believed it was best to wait for the written opinion to see if this could be resolved hopefully sooner rather than later. Mr. Manning stated he agreed.

Mr. Moore intervened and said he recognized this issue would not be solved today and that several discussions and meetings would have to be held before it was resolved. He expressed his disappointment with management in the way this was handled so far. He said he understood from the last meeting that the Governance Committee would be dealing with some of the thorny issues that needed to be sorted out, and that in the meantime, the Board had come to at least a temporary solution on the budget issues. He said the Retirement Board had agreed to change the Retirement Office budget and had agreed on the approach the General Manager had suggested, but instead of that being used to temporarily finesse the issue, he said he believed an effort was made by management to bring the issue to a head by trying to get the Retirement Plan to suggest a request for approval by the DWP Board of Commissioners. He said he believed everyone understood that the Retirement Board does not believe that the Retirement budget is within the purview of the DWP Commission. He continued by stating this was not a budget issue, it was not about four clerk typists, it was about a very fundamental linchpin in what provides the isolation of the Retirement Board from the political process. He

said the budget section of the Retirement Plan, which management was now asserting is subject to approval by the Commission, is also that section of the Plan which includes the Department's contributions. He stated that has been inviolate for a long time and, as far as he was concerned, it would be. He conveyed that at the recent retiree picnic, a retiree commented to him that he was pleased to have received the letter from the General Manager which assured that the Retirement Fund would remain secure and that retirees would continue to receive secure retirement checks. He stated he believed the very thing that depended on that was the fact that Department management and the DWP Commission cannot change the Retirement budget, and they have to adhere to certain rules by which that budget is developed.

Mr. Nahai stated, regarding the last meeting and the compromise that was settled on, that he did not appreciate that what that meant at the time was the Department would now have positions that could be in place for the next thirty years and would require a budget augmentation well into the future. He stated that at yesterday's Commission meeting, it was Department management staff's recommendation that the Annual Personnel Resolution (APR) had to go forward at that time in order to enable the Department to make the various hiring decisions and hiring actions that it was committed to make, and the lawyers advised management that because the Commission was adopting an APR did not mean that this governance issue was closed and that discussions could not continue. He stated he agreed this was not just about this one budget and that a larger issue was involved. He further stated that just as the Board believes any budget the Retirement Board adopts needs to automatically be approved by the Commission, the Commission believes, in terms of the overall fiscal impact, that it has a responsibility to make decisions that would affect the Retirement Board budget. He said that the prevailing view was something he thought they asked the lawyers to determine, which they have not yet been able to do, and he thought the Retirement Board and the Department should continue to deal with it.

As for the letter to the retirees, Mr. Nahai stated he was very emphatic that that letter should go out and he did not want people to believe that their retirement benefits were in jeopardy. He stated the Department has made many changes, cut programs, initiated a hiring freeze, and gone through a painful process with tough choices in order to make absolutely sure that those retirement benefits would not be adversely affected.

Mr. Peltola stated his understanding was that Mr. Moore's comments were tied to the contribution needed by the Department to fund the overall plan as far as the investments to assure the necessary resources are available to pay all of the retirees. Mr. Peltola stated he believed the funding of the Retirement Plan was not an issue and that the only issue, as he understood it, was the Department's administrative cost..

Mr. Moore replied that he believed the issues rested upon much of the same language and key sections of the City Charter and the Retirement Plan, and that was what management was questioning.

Mr. Nahai indicated that was his understanding of what the lawyers were attempting to sort out. He added he was troubled that the legal experts, who he believed were acting in absolute good faith, have been unable to produce an opinion as straightforward as the Board's opinion, and he believed more time was needed to sort this out. He further added he had no objection if the lawyers wished to consult an outside attorney, but he thought it would be helpful if they agreed at least as to which outside attorney to jointly consult. Mr. Nahai reiterated Mr. Peltola's comment that the Plan contributions were not an issue because the Department's commitment to the retirees was beyond question, but the governance issues are what need to be sorted out.

Mr. Romero thanked everyone for the dialogue and said he agreed with Mr. Moore's thought that the governance issue was clear. He expressed his concern that, although the Board did not believe it had to change its budget, it had decreased the number of requested positions, cut costs in other areas, and reduced the budget to make it exactly identical to the previous budget with no extra expenses or added cost. He stated the Board was being sensitive to the needs of the City, and he was aware this would not be resolved at this meeting.

8. a) **Summary of Investment Returns as of June 30, 1009**
- b) **Market Value of Investments by Fund and Month as of June 30, 2009**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of June 30, 2009**

Mr. Peltola asked for clarification on how the performance returns are calculated, and Mr. Wolfson gave a detailed explanation of the process. Mr. Peltola agreed with PCA representative Mr. Rue's suggestion that including a cash flow chart would be helpful.

*The Board met in closed session at 11:04 a.m. to confer with counsel and staff on the following item:*

9. **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 met back in open session at 11:20 a.m. with no action taken.*

#### **10. Retirement Board Newsletter – August 2009**

This item was included for reference only with no discussion.

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

Ms. Bhatia reported the revised budget for the Retirement Plan which was approved by the Retirement Board on June 17, 2009, included four new positions, but at the DWP Commission meeting held yesterday (August 4, 2009), the Commission approved the Department's Annual Personnel Resolution which only included one position for the Retirement Office, which was the Investment Officer position was approved by a verbal motion at the June 16, 2009, DWP Commission meeting. She explained that meant the Retirement Office does not have the ability to fill the other three positions that were approved by the Retirement Board. She noted staff is consulting with outside legal counsel regarding the issues of authority.

Ms. Bhatia reported parallel testing of the new benefit system continued and progress was being made. She stated the goal was to turn off the legacy system in a week or so. She indicated Staff was also working with the Health Plan's office with respect to the component pertaining to the deductions concerning health benefit contributions, and staff is creating specifications so the remainder of the system can be developed and the appropriate reports can be generated. She added the Filenet document imaging system was in place and all documents produced in the new PenFax system can now be scanned and saved in Filenet; staff training is also being conducted for the Membership module which was the first implemented module.

Ms. Bhatia reported the City Council's Personnel Committee presented a motion on July 27, for the second time, requesting the City Administrative Officer to provide a report on the feasibility of combining the City's three pension plans.

She noted staff received another California Public Records Act (CPRA) request for information on retirees earning more than \$100,000 a year; this request was from Ron Kaye, formerly of *The Daily News* and now of Our LA. Ms. Bhatia indicated she consulted with Board Member Mr. Moore regarding the need to send letters to retirees, and they decided it was not necessary because staff had previously informed every affected retiree at the time of the first request. Mr. Romero asked that staff also notify the labor unions of these types of requests.

Ms. Bhatia noted the remodeling of the Disability Section has been completed and remodeling continues for the Retirement Section. She stated staff has now learned the Department may be pursuing alternative options for the Retirement Office, such as purchasing another facility, so further remodeling plans are on hold.

Referring back to the CPRA issue, Mr. Nahai asked if staff was legally required to disclose individual names or just the number of people who earned over a certain amount. Ms. Bhatia responded staff initially provided only the number of retirees involved but later, because the requested information was public, provided the names and specific amounts. She added a scanned copy of the information was provided so the data could not be manipulated. She further added that since providing that information, staff has received follow-up questions such as whether cost of living increases would affect the numbers provided, what was the average amount earned by retirees in general, and whether the retirement formula is the same across the board.

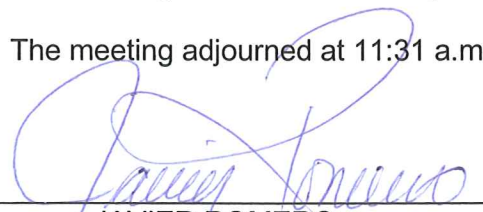
Referring back to the new system and scanning documents, Mr. Romero asked if scanning was ongoing for the old documents. Ms. Bhatia indicated staff recently began scanning the old documents. She added staff may need to contract out the scanning because of the large volume of files; however, she assured that the integrity of the information would be maintained by limiting access. Mr. Romero asked when members would be able to access the new system, and Ms. Bhatia replied toward the middle or end of next year.

In response to a question from Ms. Coffin, Ms Bhatia indicated a Governance Committee meeting is scheduled for September 12.

## 12. Future Agenda Items

No future agenda items were requested.

The meeting adjourned at 11:31 a.m.

  
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JAVIER ROMERO                      Date  
President                                      10/7/09

  
\_\_\_\_\_  
SANGEETA BHATIA                      Date  
Retirement Plan Manager

  
\_\_\_\_\_  
JULIE ESCUDERO                      Date  
Utility Executive Secretary                      10-7-09