

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

**MINUTES**

**August 19, 2009**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member  
Jeff Peltola, Chief Financial Officer

**Board Members Absent:**

H. David Nahai, General Manager  
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  
Erlinda Pabon, Acting Utility Executive Secretary

**Others Present:**

Michael Wilkinson, Deputy City Attorney  
Neil Rue, Pension Consulting Alliance, Inc.  
David Sancewich, Pension Consulting Alliance, Inc.

President Romero called the meeting to order at 10:11 a.m. following the Pledge of Allegiance.

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

**Public Comments (*Heard Later in the Meeting*)**

Comments from the public were heard during Item No. 12; no other public comments were received.

- 1. Recommendation for Approval of July 15, 2009, Regular Meeting Minutes**
- 2. Termination from Monthly Rolls**
  - Termination from August 2009 Retirement Roll**
  - Termination of Amanda Monje and Mathew Champion from September 2009 Family Death Benefit Roll – Legal Age**
  - Termination of Sam H. Martinez from July 2009 Permanent Total Disability Roll- Retired**
  - Termination of Gina Sosa from August 2009 Survivorship Roll – Deceased**
  - Termination of Lillian C. Morrison from August 2009 Survivorship Roll - Deceased**

*Mr. Moore moved for approval of Consent Items 1 and 2; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

*Nays: None*

- 3. Report of Payment Authorizations for July 2009**
- 4. Notice of Deaths for July 2009**

5. a) **Summary of Investment Returns as of July 31, 2009**  
b) **Market Value of Investments by Fund and Month as of July 31, 2009**  
c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2009**
6. **Report on Status of Insurance as of July 31, 2009**
7. **Letter from the Retirement Board to the City Council Regarding Actions Taken with Regard to Placement Agents**
8. **Report on Personnel Changes at PAAMCO**
9. **Update regarding Proposed Legislation**

*Mr. Moore moved for approval of Items 3 through 9 as received and filed; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

**11. Presentation by Pension Consulting Alliance, Inc. – Second Quarter Performance Review as of June 30, 2009 (Out of Order)**

Mr. Romero acknowledged Neil Rue from Pension Consulting Alliance, Inc. (PCA).

Mr. Rue summarized the portfolio's performance and noted for the quarter, the portfolio was up 11% percent, but underperformed the benchmark which was up 14.2 %. He noted the portfolio was down 15.1% for the fiscal year, versus the policy benchmark which was down 17%. He attributed that to the portfolio being positioned more defensively than the policy benchmark.

He reviewed our fund in comparison to other public funds and noted that while absolute returns for the WPERP portfolio were negative 15% for the fiscal year, in comparison, preliminary numbers showed LACERS was down 20% and LA Fire and Police was down 18%. He indicated that most public funds were above the median and WPERP was in the top third quartile and near the top quartile, and he added the portfolio was in the top 25<sup>th</sup> percentile for the fiscal year in comparison to very large public funds, i.e., \$1 billion and larger.

He reported the asset class portfolios were at the median or better and were competitive with the peer group. He also reported U.S Equities were above median and the Plan's non-U.S. Equity portfolio is one of the best in the country.

Mr. Rue reviewed fixed income and noted the median return was below the benchmark, but remained competitive relative to the peer group and ranked very well versus WPERP's sister funds and the larger public fund community.

He then reviewed the risk/return analysis and noted over the three-year period the volatility in the policy benchmark had a standard deviation of approximately 14% ~~percent~~. He indicated the total portfolio produced modestly lower risk than the policy benchmark and stated the Plan is managed more conservatively than the policy benchmark would dictate. He added the portfolio took less risk and was able to produce the same amount of return.

Mr. Rue also reviewed the breakdown of the portfolio relative to policy. He stated as of June 30, 2009, the portfolio's total value was \$6.5 billion with \$5.7 billion of that in retirement, and \$750

million in the health plan. The retirement plan in aggregate, was 16% underweighted public equity and 15% overweighted in fixed income. He indicated the next report will show the new policy allocation with roughly 33% in U.S. Equity, 17% in non-U.S. Equity, and 40% in fixed income.

Mr. Rue reported the portfolio outperformed the policy benchmark by 190 basis points for the fiscal year and indicated it was fairly even with the benchmark in U.S. Equity, it outperformed substantially in non-U.S. Equity by almost 400 basis points, and underperformed by approximately 140 basis points in fixed income; however, he added many in the peer group underperformed by more.

He reviewed the managers' performance. He stated approximately half of the equity managers outperformed their benchmarks, and five of the seven other managers also outperformed their benchmarks. He also reviewed the non-U.S. Equity managers and noted INVESCO outperformed by over 600 basis points, The Boston Company outperformed by 1,000 basis points, and Pyramis stayed relatively close to their benchmark. With respect to emerging markets, Mr. Rue explained that the blend of performance of The Boston Company and T. Rowe Price has done very well. He also added fixed income managers ING and Wells outperformed their index.

Mr. Rue spoke about the health plan and reported the health plan performed better than the retirement plan, primarily because their asset mix was more conservative. He noted the health plan was down 11% for the fiscal year, versus its benchmark which was down 14%.

Mr. Peltola asked if an asset allocation study was performed for the health plan, and Mr. Rue responded one had not. He pointed out the Board had decided to replicate the retirement plan over time, but in the interim it was 60% equity and 40% bond. Ms. Bhatia clarified it was at the most recent meeting when the discussion took place regarding whether the health plan's structure should be similar to the retirement plan, and the Board decided the health plan should mirror the retirement plan.

## **12. Discussion of INTECH Investment Management, LLC, Investment Performance**

Mr. Romero acknowledged Jennifer Young, President and Chief Executive Officer of INTECH. Ms. Young addressed the Board under Public Comments and distributed a copy of the firm's performance statistics as of August 17, 2009. She emphasized the firm's outperformance in 2004 and 2005 with 5.92% and 3.42% returns, respectively. She noted that 2006 did not demonstrate a typical performance for the strategy resulting in a -1.31% return. She noted their performance was very modest in 2007 with a -0.41% return; and in 2008, their strategy was still ahead of the benchmark with a return of -3.72%. She further noted how challenging the first part of 2009 was and assured the Board their performance would improve and their philosophies are still viable.

Ms. Young concluded that INTECH is a very stable firm with 22 years of experience with a low turnover rate, and they are still on top of their long-term targets. She noted their investment process is strong and their philosophy is solid. She added their 22-year history includes occasional periods like this, and every one of their strategies has recovered right about on top of their long-term targets. She expressed her thanks to the Board and noted her expectation to remain on target with their long-term goals.

Mr. Moore inquired about the biggest detractor and contributor to INTECH's underperformance besides the stock picking approach. Ms. Young responded it was based on INTECH's

performance attribution system associated with the portfolio size, investment style, and other elements like momentum and volatility in the market. She stated this could be explained by their analytical program whereby stocks are picked based on market volatility and by looking at the entire universe independent of individual stocks. She added portfolios are built with all analytical information, in aggregate, from a long-term perspective resulting in lower risk.

Mr. Wolfson provided a summary from Staff's perspective. He noted INTECH was hired in February 2004; in December 2007, the Board placed them on watch status due to poor performance, and extended the watch status in February 2009 due to continued performance deterioration, which was much lower than the median.

Mr. Moore asked for comments by the Pension Consulting Alliance, Inc. (PCA) representative, Mr. Neil Rue. Mr. Rue stated INTECH's investment strategy is unlike other managers. He pointed out they look at the stocks as a package, which is entirely different from fundamental managers. He indicated their process does not involve forecasting and they are very quantitative. He added that regardless of INTECH's quantitative model, the issue of "style drifts" and the bulk of underperformance due to tilt in style (from mid-cap growth to small-cap growth) prompted PCA to recommend their termination.

*Mr. Moore moved for approval of Resolution No. 10-14, to terminate the contract for Intech Investment Management, LLC; seconded by Mr. Poole and carried unanimously after the following vote:*

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

*Nays: None*

### **13. Discussion of Recommendation to Extend Watch Status for Pacific Alternative Asset Management Company**

Mr. Wolfson provided a summary by stating the Board hired PAAMCO in December 2006 and placed them on watch status for a period of six to twelve months in February 2009 for performance reasons. He noted the Board had requested Hedge Fund of Funds managers be more closely monitored and, now that the six-month period has passed, Staff was presenting this recommendation that PAAMCO remain on watch. Mr. Wolfson noted that Staff and PCA recognized that PAAMCO has shown some improvement during the past few months; however, the improvement was not sufficient enough to remove them from watch status.

David Sancewich of PCA highlighted the items in PCA's memo, which was provided to the Board. He noted that although PAAMCO's performance was remarkably better in 2009, it was still below the watch criteria. He stated PCA's recommendation was to keep PAAMCO on watch status and this item should be brought back to the Board with another performance review in February or March of 2010.

*Mr. Moore moved for approval of Resolution No. 10-15, to keep Pacific Alternative Asset Management Company, on watch status, seconded by Mr. Poole and carried unanimously after the following vote:*

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

*Nays: None*

#### **14. Discussion of Recommendation to Extend Watch Status for Aetos Capital, LLC**

Mr. Wolfson explained that the situation for Aetos was similar to that for PAAMCO. He stated the Board hired Aetos in December 2006 and placed them on watch status for a period of six to twelve months in February 2009 for performance reasons.

Mr. Sancewich highlighted the items in PCA's memo, which was provided to the Board and noted that Aetos performed better when the markets were down while PAAMCO performed better when the markets were up. He mentioned that Aetos performed better than the S&P 500 but underperformed the benchmark T-bills plus 3% during the past months; therefore, PCA was recommending that Aetos be kept on watch status, and this item should be brought back to the Board with another performance review in February or March of 2010.

*Mr. Moore moved for approval of Resolution No. 10-16, to keep Aetos Alternative Asset Management Company, on watch status, seconded by Mr. Poole and carried unanimously after the following vote:*

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

#### **15. Discussion of Recommendation to Extend the Contract with Paradigm Asset Management Co., LLC**

Mr. Wolfson explained the Board hired Paradigm Asset Management as a Small Cap Growth Manager for the Plan in July 2006 and stated Paradigm's strategy was unique taking quantitative approach by analyzing thousands of other investment managers which sometimes resulted in a lag in their performance. He added Paradigm was placed on watch in December 2008 because of performance reasons. They underperformed 58 percent of the time since inception or a total of 20 out of 34 months. He further stated that Paradigm's contract is expiring at the end of August 2009 and Staff is recommending extension of the contract which included a 30-day termination clause. He stated a recommendation would be brought back to the Board after August 2009.

Ms. Coffin voiced her concern on the need to extend Paradigm's contract considering that they have been underperforming and she also commented on the Board's decision to terminate INTECH, another growth manager. Mr. Wolfson responded that Paradigm has been on watch status for much less time than INTECH and Paradigm's performance would be brought back to the Board for review.

*Mr. Moore moved for approval of Resolution No. 10-17, approving contract extension with Paradigm Asset Management, LLC; seconded by Mr. Poole and carried unanimously after the following vote:*

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

#### **16. Resolution to Ratify the Board's Decision to Change the Retirement Board Meeting Schedule**

*Ms. Coffin moved for approval of Resolution No. 10-18, ratifying the Board's decision to change the Retirement Board's meeting schedule; seconded by Mr. Poole and carried unanimously after the following vote:*

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

#### **17. Update on discussion from August 19, 2009, Audit Committee Meeting**

This item was included for information only and reporting. There was no discussion.

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

Ms. Bhatia reported the legacy system RSS, used for recording active member information had been turned off and the first module of the new computer system (Penfax) was now in place for purposes of recording member contributions and information processing; a one-page annual statement would be provided to members this year and eventually a comprehensive statement in booklet form would be available in the future.

On the investment side, Ms. Bhatia reported Staff is preparing for the rebalancing of the asset allocation structure of the Retirement Plan and the health plan asset allocation funding to have it mirror the Retirement Plan. She stated three Requests for Proposals (RFP) had recently closed. They were for 1) fixed income, 2) small-cap, and 3) global-inflation linked – the class approved by the Board for the Real Return class. She reported receiving another request from a Daily News reporter regarding information on retirees' earnings specifically those receiving earnings that exceed **one** hundred thousand dollars annually; this was a similar request to the one received previously. She noted the request was handled as a California Public Records Act (CPRA).

#### **19. Future Agenda Items**

Mr. Romero suggested that the topic of additional contributions be brought back for discussion. He also requested discussion of cost of living increases for retirees making over \$150,000 annually. Ms. Bhatia stated that would involve a ~~specific~~ **meet and confer** process, but she could provide the Plan provisions as they exist for discussion. Mr. Poole requested a copy of the interim actuarial account presentation that was previously provided to DWP management. Ms. Bhatia replied she would provide him with a copy of the report which was given to Board members prior to his election.

#### **10. Discussion of Fiduciary and Governance Issues and Possible Action – Update from Attorneys (Out of Order)**

Mr. Romero acknowledged Robert Klausner from Klausner & Kaufman, P.A.

Mr. Klausner introduced himself and stated he had been on the Plan's bench of fiduciary counsels for seven years. He explained his only line of work as a lawyer is the representation of state law for government retirement systems. He further stated his firm provides advice to about ~~a~~ **one** hundred ~~of~~ state, local, **and** government plans, as well as to WPERP, and also assisted the other two City plans as well as the County of Los Angeles in the capacity of planning and fiduciary counsel.

Ms. Bhatia provided a brief summary stating Staff had consulted with ~~Robert~~ **Mr.** Klausner regarding recent discussions at the Retirement Board concerning governance related issues pertaining to the authority of the Retirement Board to ~~approve~~ **approve** the Retirement Plan

budget as well as staffing levels. She stated at recent Board meetings, a specific question was brought up and that question was assigned to Mr. Klausner. She explained Mr. Klausner has been on the panel of fiduciary counsels through contracts with the City Attorney's Office as required by Charter.

Mr. Peltola wanted to know if this item should be discussed under closed session wherein Mr. Wilkinson advised that this item will be discussed in open session under the Brown Act.

Mr. Klausner provided a written opinion to the Board ~~and made a presentation, noting the following points below~~ in response to the question he was assigned to answer. **The question and excerpts of his response are as follows:**

**Question:**

*"Does the plenary authority of the Board of Administration of the Department of Water and Power Employees' Retirement Plan to administer the System include the determination of the budget, including staffing levels, needed to ensure the prompt delivery of benefits and services to members and beneficiaries of the System?"*

**Excerpts from Mr. Klausner's Response:**

- The Retirement Board (Board) has the exclusive authority to administer the Plan and that includes determining the budget and the staff, needed to run the Plan and the reason is the administrative cost of running the retirement system is part of the contribution.
- The Board members are the fiduciaries for the Plan and have the statutory and common law responsibility to act in the best interest for the members and beneficiaries of the Plan. (Contra Costa v. Corcoran case)
- The plenary authority of the Retirement Board to administer the Plan and the independence of the Retirement Board is defined by law in three contexts: the Constitution, the Charter, and the Plan.
- The job and responsibility of the Retirement Board was to administer the Plan as fiduciaries in the best interest of the Retirement Plan and its members and beneficiaries. This responsibility applied regardless of whether a Board member was a Board of Commissioners appointee, an ex-officio member, an elected representative or a retiree representative.

Mr. Moore expressed his appreciation for the report and asked Mr. Klausner about the decision making ability of fiduciaries in a ~~politically-motivated~~ **political** environment that might have some negative effect to the interest of the members being served. Mr. Klausner responded that fiduciaries always have the responsibility to do what is best for the Plan and take into consideration what is necessary to run the system. In response to Mr. Moore's follow-up question regarding other governance related issues for the Board's discussion, Mr. Klausner responded those were outside the scope of his present assignment.

Mr. Peltola also acknowledged the information provided but requested Mr. Klausner's clarification on how the Board would determine critical need versus want when it comes down to the administration and getting those benefits to the members. Mr. Klausner explained that

determining the budget and staffing level is a decision to be made by the Board. Mr. Peltola made another reference to the report discussed by Mr. Klausner indicating there was never any complaint in getting the administration of the plan out to the members and justifying critical need as fiduciaries of the Plan. Mr. Klausner stated that although the fiduciary responsibilities were given to the Board Members, it would be wise to listen to Staff to make a better judgment of identifying what is needed to effectively provide those services whether in areas of staffing, additional office space, or anything else as deemed necessary. Mr. Peltola expressed his agreement with Mr. Klausner's statement and recommendation. Additionally, Mr. Peltola suggested that the City Attorney should look at the information provided wherein Mr. Wilkinson agreed. Mr. Klausner responded he was willing to share the same information with the City Attorney's Office when asked by Mr. Romero.

Mr. Moore commented that both branches of the City Attorney's Office should be looking into the newly presented information ~~and~~ so an agreement can be reached to resolve the issue.

Mr. Poole noted that more discussion is necessary and an action from the Board is needed to resolve the situation.

Mr. Romero asked Mr. Wilkinson about the possibility of receiving feedback from the City Attorney wherein Mr. Wilkinson replied that since Pete Echeverria, the new Chief of Civil Branch, is currently on vacation, an update might be provided after the September 9 Board meeting.


Ms. Bhatia voiced her concern regarding Retirement Plan's inability to hire positions in the new budget because the APR included only one position in the revised budget that was approved by the Board of Water and Power Commissioners.

It was requested that this item be brought back to the Board for discussion.

The meeting adjourned at 11:50 a.m.

  
\_\_\_\_\_  
JAVIER ROMERO                      Date  
President

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

  
\_\_\_\_\_  
ERLINDA PABON                      Date  
Acting Utility Executive Secretary