

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

**MINUTES**

**November 18, 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:**

S. David Freeman, Interim 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  
Julie Escudero, Utility Executive Secretary

**Others Present:**

Mary Jo Curwen, Deputy City Attorney  
Tad Fergusson, Pension Consulting Alliance, Inc.

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**

No public comments were received.

1. **Recommendation for Approval of Minutes:**
  - a) **Special Retirement Board Meeting – October 7, 2009**
  - b) **Regular Retirement Board Meeting – October 14, 2009**

2. **Termination from November 2009 Retirement Roll**

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

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

*Nays: None*

3. **Report of Payment Authorizations for October 2009**

4. **Notice of Deaths for October 2009**

5.
  - a) **Summary of Investment Returns as of October 31, 2009**
  - b) **Market Value of Investments by Fund and Month as of October 31, 2009**
  - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of October 31, 2009**

Mr. Moore asked why ING's inception amount of \$923.4 million as shown on page 5a.1 differs from the cost amount of \$1,128,368,537 shown on page 5b.1. Mr. Wolfson explained the cost column was taken directly from the BNY Mellon information which is not necessarily the funding amount. He added the cost amount reflects the various adjustments, and he indicated he would provide clarification at the next meeting. Ms. Sangeeta also commented that the cost amount includes the amortization component of bond interest.

Mr. Wolfson pointed out that page 5a.4 is a new page being added to the Summary of Investment Returns, and it shows the long term return of the portfolio compared to the benchmark during different reporting periods.

**6. Report on Status of Insurance as of October 31, 2009**

**7. Report on State Street Foreign Exchange Complaint**

**8. Report on Organizational Changes at Capital Dynamics (Formerly HRJ Capital)**

*Mr. Moore moved for approval of Items 3 through 8 as received and filed; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

*Nays: None*

**9. Presentation by Pacific Alternative Asset Management Company- Hedge Fund of Funds Annual Performance Review**

Mr. Romero acknowledged Dorothy Walsh and Jim Berens from Pacific Alternative Asset Management Company, LLC, (PAAMCO).

Ms. Walsh reported PAAMCO has rebounded from 2008 and is strong and stable. She noted as of October 1, 2009, PAAMCO had \$8.9 billion in assets under management, and a year-to-date net growth of 5%. She stated PAAMCO added 10 new clients in 2009 but also experienced asset losses of approximately \$177 million. She noted the firm expanded its partnership from eight to ten partners and added two managing directors. Ms. Walsh also indicated PAAMCO has experienced very low employee turnover since inception and has hired great talent.

Mr. Berens reviewed the performance and characteristics of the portfolio and stressed how well the portfolio has performed since inception. He explained how PAAMCO used asset and franchise value to improve performance through controls, fees, transparency, and liquidity. He noted the biggest contributors in the fixed income strategies were credit hedging and convertible bond hedging.

Mr. Moore asked about the significant amount of liquidity resulting from the economic stimulus and if the money to be withdrawn over time by the Federal Reserve would cause inflation. Mr. Berens explained inflation cannot be predicted but, right now, it appears inflation is a long term threat.

Mr. Moore also asked Mr. Berens' comments regarding PAAMCO's stand on leverage and also if the industry was reverting to its old ways. Mr. Berens explained that PAAMCO has always been conservative and not in favor of strategies that would increase small spreads by applying a lot of leverage. He stated that Wall Street has historically had a short term memory.

Mr. Peltola asked for clarification of the fee structure. Mr. Berens responded that PAAMCO continues to aggressively negotiate fees with new managers and renegotiate fees with existing managers for the benefit of their clients.

#### **10. Presentation by Aetos Alternative Management, LLC – Hedge Fund of Funds Annual Performance Review**

Mr. Romero acknowledged Anne Casscells and Andrea M. Bollyky from Aetos Alternative Management, LLC.

Ms. Bollyky stated the Plan's portfolio had strong activity in terms of asset growth stability and there had been no significant change in the team. She noted the standard deviation of over 4% and Beta of approximately 0.1% added to the value because of the low correlation to the market. Ms. Bollyky also provided a brief review of the portfolio allocation, exposure, and characteristics.

Ms. Casscells highlighted the recovery in risk assets, equity markets, and credit markets and indicated the Plan's portfolio was up by 10.3% through the third quarter of 2009.

Mr. Moore asked for Ms. Casscells' view on the issues of liquidity, withdrawal of liquidity, and inflation. Ms. Casscells opined that inflation would not be a problem for a while and she believed deflation could have a more damaging effect. She also indicated that Aetos is closely monitoring the activity of the Federal government.

#### **11. Presentation by Pension Consulting Alliance, Inc. – Private Equity Second Quarter Performance Review as of June 30, 2009**

Mr. Romero acknowledged Tad Fergusson from PCA.

Mr. Fergusson stated the program has generated \$146 million allocated across six private equity partnerships and had drawn down approximately \$74 million in capital, distributed \$11.3 million back into the program, and reported a market value of approximately \$55 million. He added those numbers represent a net since-inception internal rate of return of minus 8.3% as of the second quarter of 2009. Mr. Fergusson stated the private equity market has begun to rebound and has shown positive increases, although on a lag basis, but it still showed a negative basis since inception.

Mr. Fergusson stated the use of fund-of-funds in both the secondary and primary markets have resulted in a diversified portfolio for the Plan. He added that with the \$55 million reported value, plus approximately \$72 million in unfunded commitments, the total program exposure is approximately 2.2% of the total portfolio. He noted the long term allocation target for the private equity asset class is 5% which can be achieved in the next couple of years. He stated the market value for this fiscal year is approximately 2%.

Mr. Fergusson referred to the addition of the Partnership Summaries that were created in response to Mr. Moore's request, and indicated they include tables and progress notes for each of the underlying partnerships.

Mr. Moore asked how leverage was being viewed by the industry versus the partners. Mr. Fergusson explained that leverage occurs mostly in the buyout segment when general partners apply leverage to purchase a company's portfolio. He stated those were the more unique types of transactions and, although the activity has increased, the credit market is still tight, and he believed more conservative structures would be around for some time.

With respect to current allocation and alternative investments, Mr. Romero asked if the Plan's investments were on the right track. Mr. Fergusson responded that, given the market condition, the Plan is still well-positioned toward a 5% allocation target, and this would be a good time to put out more capital with the expectation of more activities next year. He added he was hoping to bring in a new opportunity early next year.

## **12. Discussion of Recommendation to Extend the Contract with Glass, Lewis & Company, LLC, as Proxy Service Provider**

Mr. Wolfson introduced this item and reminded the Board that Glass Lewis was hired in 2006 as a proxy provider. He added Glass Lewis has done a good job in servicing the Plan, and its staff has demonstrated professionalism in dealing with Staff. Mr. Wolfson stated this item was brought back for Board consideration to extend the contract for Glass Lewis for another three years.

*Mr. Moore moved for approval of Resolution No. 10-39 to extend the contract with Glass, Lewis & Company; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

*Nays: None*

Mr. Peltola asked if the contract extension required City Council approval. Ms. Bhatia explained due diligence was performed to support the contract extension, and the Board has the authority to extend the contract. She added initial contracts were for three years; however, they could be extended for another three years if warranted.

## **13. Discussion of Update on Governance Issues**

Ms. Bhatia provided a recap of this item and reiterated how the Retirement Plan budget, including the amended budget, was approved by the Retirement Board but was not implemented due to issues concerning the Retirement Board authority. She added the Plan sought the advice of outside fiduciary counsel Robert Klausner, from the firm of Klausner and Kaufman, who clarified that the Retirement Board has the authority and fiduciary responsibility to approve the staffing level and the budget for the Retirement Plan.

Mr. Romero asked City Attorney representative Mary Jo Curwen if she had any updated information. Ms. Curwen stated Assistant City Attorney Alan Manning indicated he conducted several meetings with the managing attorneys in his office, and a response was anticipated probably after the first of the year.

Ms. Bhatia raised concerns regarding the unnecessary expenditure incurred by the Retirement Office for using outside counsel and for the number of operational issues the Retirement Office has had to face due to the inability to hire the approved positions that are vital to operations. Discussions ensued wherein most Board Members agreed the Retirement Board is the decisive authority for the Retirement Plan and that this item must be fully resolved immediately. The Board requested a response from the City Attorney by January 15, 2010.

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

Ms. Bhatia indicated the regular Board Meeting of December 23 will likely not take place because of lack of quorum. She reported the actuarial valuation of the Disability and Death Benefits Funds would be presented at the next meeting.

Ms. Bhatia reported concerns with respect to adequate controls in connection with the recent change in banks implemented by the Treasurer's Office.

She stated filling vacant position was taking more than six months and indicated this could be a Department-wide issue. She reported the term for the two limited Clerk Typists who were in charge of the indexing and scanning project ended over a month ago, and the Retirement Office was in the process of hiring new staff who would continue the project.

She also noted the 2010 Retirement Seminar schedule was now available. She stated the class capacity was 50 participants per month, with a goal of 80 attendees per quarter. She explained Staff had informed the training coordinators of each business unit who were responsible for scheduling participants. She also indicated the class schedules were posted on the Retirement website.

Ms. Bhatia reported staff is working on implementing the functionality of the Retirement and Death and Disability components of the new system. She added a Request for Proposal (RFP) was also underway to select a vendor to scan the large numbers of the existing previous member files which, in turn, will be linked to the records in the new system.

She further reported the Retirement Office had recently received calls from the media, specifically from the *Los Angeles Times* and *Valley Voice* reporters regarding investment returns, funding levels, and other retirement-related questions.

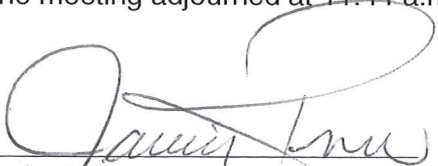
Ms. Bhatia also provided the Board Members each a copy of a document she received from LACERS regarding a State ballot measure called the *New Public Employees Benefit Reform Act*. She added the measure discusses the issue of long term sustainability of public agencies related to retirement benefits and includes a proposal to add language to the State Constitution to change retirement benefits for new employees which would take effect in 2011 if approved by voters. She added she also forwarded the document to Alan Manning and Mike Wilkinson of the City Attorney's Office.

Ms. Bhatia also noted she has received no information on who will be the new appointed Commissioner to the Retirement Board. She also indicated she had no new information to provide regarding side-door access to the Board Room. Mr. Peltola indicated he could access the Board Room from the side door.

**15. Future Agenda Items**

No future agenda items were requested.

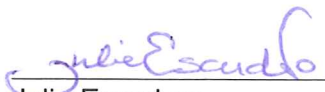
The meeting adjourned at 11:44 a.m.

  
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Javier Romero  
Board President

1/13/10  
Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

1-13-10  
Date

  
\_\_\_\_\_  
Julie Escudero  
Utility Executive Secretary

1-13-10  
Date