

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

MINUTES

FEBRUARY 24, 2010

Board Members Present:

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

Board Members Absent:

Appointed DWP Commissioner - Vacant

Staff Present:

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

Others Present:

Alan Manning, Assistant City Attorney
Mike Wilkinson, Deputy City Attorney
Neil Rue, Pension Consulting Alliance
Tad Fergusson, Pension Consulting Alliance

President Romero called the meeting to order at 10:12 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Charles Zinger, a retiree, addressed the Board with a request for an amendment to the Retirement Plan to allow a member, who selected Option C of the Optional Retirement Allowance, to change a beneficiary.

Mr. John Hill requested to speak to Item 8 when the item came up for discussion.

1. Request for Approval of Minutes for the January 27, 2010, Regular Board Meeting

This item was deferred for the next meeting.

2. Termination from Rolls

Termination from January 2010 Retirement Roll

Termination of Mildred K. Green from the February 2010 Survivorship Roll

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

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

Nays: None

Mr. Romero called for discussion of Items 3 through 7:

3. Report of Payment Authorizations for January 2010

4. Notice of Deaths for January 2010

5. a) **Summary of Investment Returns as January 31, 2010**
b) **Market Value of Investments by Fund and Month as of January 31, 2010**
c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of January 31, 2010**
6. **Report on Status of Insurance as of February 11, 2010**
7. **Report on Organizational Change at Zeno Consulting Group (formerly known as Plexus Plan Sponsor Group, Inc.)**

Mr. Moore moved to accept Items 3 through 7; seconded by Ms. Coffin and carried unanimously after the following vote:

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

Nays: None

8. Discussion of Investment Return Assumption

Mr. John Hill, DWP Utility Accountant, presented his Public Comment to the Board and expressed his concern that individuals who participate in the voluntary Additional Contribution Program and who rely on the 8% assumed investment rate of return might be impacted if the expected rate of return was decreased. He requested diligent efforts be made to notify Plan participants if the expected rate of return changed to less than 8% in the future.

Ms. Bhatia reported Item 8 was continued from the previous meeting and was requested by Mr. Freeman who expressed his concern with continuing to use 8% as the assumed investment rate of return. Ms. Bhatia added that the experience study, currently being conducted by The Segal Company, would examine all of the underlying assumptions, including the investment return assumptions, and the report would be presented to the Board in March. She stated Neil Rue from Pension Consulting Alliance, Inc. (PCA), was in attendance to discuss the investment return assumption rates. She added he would also be presenting the effects of the current investment return assumption rates on the Plan's asset allocation structure during Item 9.

As background, Mr. Rue noted the Board approved this strategic allocation using long term capital market assumptions created in 2007. He explained they were recalculated due to the market changes and now reflected the long term capital market assumptions as of 2010, and he reviewed how that impacted the expected numbers approved by the Board.

Mr. Rue noted no real distinction existed between international equities and domestic equities on a return level basis, and the allocation decision for these classes would be determined by how well the combination of non-U.S. equity and domestic equity performed against each other and against the other asset classes.

Mr. Rue explained the meaning of relative return. He also stated the equity number was the same as it was in 2007.

In response to a question from Mr. Peltola, Mr. Rue explained the reduction of fixed income rates, despite the rise in bank interest rates, was relative to inflation.

At this point, the Board decided to discuss Items 8 and 9 (*Discussion of the Retirement Plan's Strategic Allocation - Presentation by Pension Consulting Alliance*) simultaneously because of their correlation to each other.

Mr. Rue reported public equity was less risky now than it was in 2007, and in response to a question from Mr. Freeman, he stated the economic growth was estimated to be 3.5% - 4% out to 2013.

Discussion ensued regarding risk, and Mr. Rue stated the portfolio would not be any riskier than it was in the past, and the level of volatility would not change.

Mr. Freeman reiterated his apprehension with the 8% assumption rate. Ms. Bhatia stated the Plan's actuary, The Segal Company, was currently studying the Plan's assumptions and would be presenting their report at the second meeting in March.

Mr. Romero asked if Staff had discussed requesting another asset liability study. Ms. Bhatia stated Staff had not yet discussed that with the Board, but had discussed it with PCA.

(Mr. Peltola left the meeting at 11:27 a.m.)

Ms. Bhatia indicated Staff could ask for another asset liability study now or wait for the results of the Actuarial Experience Study in March. Mr. Romero suggested the Board wait until after they reviewed the results before they decided.

9. Discussion of the Retirement Plan's Strategic Allocation - Presentation by Pension Consulting Alliance

(Discussed simultaneously with Item 8)

10. Presentation by Pension Consulting Alliance – Fourth Quarter Performance Report for Period Ending December 31, 2009

Neil Rue presented the Fourth Quarter Performance Report and noted the portfolio increased its value over the previous quarter and outperformed its policy benchmark and its peer groups.

He provided a market overview, reviewed the risk metrics, and reviewed the allocations as of the end of the year and reported they were on target. He highlighted the international equity and fixed income portfolios and pointed out the solid results for fixed income.

He reported the Retirement portfolio and the Retiree Health Fund portfolio both outperformed their policy benchmarks. He noted the process of having the Retiree Health Fund allocations more closely resemble that of the Retirement portfolio had begun.

11. Presentation by Pension Consulting Alliance – Third Quarter Private Equity Performance Report for Period Ending September 30, 2009

Tad Fergusson from PCA explained that private equity reporting was performed on a quarterly-lagged, or three months delayed, schedule due to the nature of the asset class.

Mr. Fergusson reported the market value of the private equity portfolio was \$59.3 million as of September 30, 2009, and the program had generated a net since-inception internal rate of return of minus 5.1% for this reporting period, which was an improvement from 2008.

He explained the portfolio was highly diversified and represented approximately 2.6% of the total portfolio, with the long-term goal being 5% of the total Plan assets.

Mr. Fergusson provided a brief overview of the market and indicated private equity outperformed the public domestic and international equity markets over the long- term, despite the more recent absolute declines; however, the one-year performance was minus 7.9%.

He reported very few transactions had occurred in the prior years, but last year was very optimistic and more transactions were expected this year. He stated performance has been improving each quarter.

Mr. Fergusson stated the portfolio was very well-positioned toward its 5% target allocation, and noted he aimed to add more opportunities into the Program.

12. Presentation by Zeno Consulting Group (formerly known as Plexus) – Transaction Cost Analysis as of December 31, 2009

Zeno representatives Warren Chun and Vinod Pakianathan reviewed their philosophy and the quarterly results and explained how transaction costs and benchmark costs were determined.

Mr. Pakianathan reviewed their goals, client cost trends, and commission rates.

Mr. Chun reviewed the performance results of the overall dollars traded. He reported the improvement was a result of the asset class mix, a less volatile market, and more efficient trading.

Mr. Pakianathan stated a reduction in net costs had not yet occurred, but he suggested that watching managers, such as Fred Alger, and following applicable trading policies could help reduce trading costs.

In response to Mr. Moore's concern with Fred Alger's use of their own broker, Mr. Wolfson explained how the use of Zeno's program improved the ability to monitor trades.

Mr. Romero asked if Zeno reported on managers during transitions. Ms. Bhatia stated PCA performed that function, and she explained the differences between the PCA and Zeno contracts.

(Mr. Peltola returned at 12:05 p.m.)

(The Board recessed at 12:06 p.m. and reconvened at 12:13 p.m.)

13. Discussion of Request by CB Richard Ellis Strategic Partners U.S. Value 5 to Amend their Contract with Respect to Extending their Investment Period

Mr. Moore moved to approve Resolution No. 10-68 to extend the investment period for CB Richard Ellis; seconded by Ms. Coffin and carried after the following vote:

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

Nays: None

14. Discussion of Request by Mesa West Real Estate Income Fund II, L.P. to Amend their Contract with Respect to the Collateralized Debt Obligation Facility and Offering Period

Mr. Moore asked to discuss to how the CDO facility was created. Mr. Wolfson confirmed that Mr. Moore's understanding of the process was correct, and he added the funds were obtained from a secondary market.

Mr. Moore expressed his concern that short term interest rates could rise and result in higher payments if lower long term interest rates were not locked in at this time.

Lourdes Canlas and William Foster from Courtland Partners approached the table, and Mr. Foster explained that Mesa West's intent was to remove any fixed income interest rate risk by structuring all of its loans based on the London Interbank Offered Rate (LIBOR) floating rate. He agreed it was a risk but Mesa West preferred to lend purely on a spread basis at this time.

Mr. Moore moved to approve Resolution No. 10-69 to approve the consent to restructure the CDO and further extend the offering period for Fund II; seconded by Ms. Coffin and carried after the following vote:

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

15. Discussion of Resolution to Ratify the Board's Decision to Hire Bristol Value II Fund, Real Estate Mandate

Mr. Moore moved to approve Resolution No. 10-70 to ratify the Board's decision to invest in the Bristol Value Fund II; seconded by Ms. Coffin are carried after the following vote:

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

16. Discussion of Insurance Provisions with Respect to Pending Contracts

Ms. Bhatia reported this item was continued from the previous meeting, and the question remained whether an investment manager must meet the Plan's minimum requirements of 2.5% of the Plan assets under management or \$1 million, whichever was greater, or should they change their primary insurance policy to name the Plan as an additional insured which would increase the Plan's coverage.

She noted that in 2005, the Board approved a motion to reduce the professional liability coverage from the previous \$50 million to 2.5% of Plan assets under management or \$1 million, whichever amount was higher.

(Mr. Freeman left the meeting at 12:24 p.m.)

She stated that Risk Management's interpretation that additional coverage must be purchased has delayed finalization of four investment contracts. She stated the contracts could be finalized once the Board determined whether the requirement was the percentage of assets under management or the maximum protection as obtained by the investment manager during their normal course of business.

Mr. Peltola stated he would discuss this further with Avery Neaman and Mario Ignacio; however, he believed the 2.5% satisfied the minimum requirement. He added the Plan would want to take advantage of additional coverage if it was available, but not to the point of changing the additional insurance.

Mr. Wolfson provided an update on the status of the four pending contracts.

Mr. Moore moved that the Board stand by its previous decision to require 2.5% of Plan assets under management or \$1 million, whichever amount was higher; seconded by Mr. Peltola and carried after the following vote:

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

Ms. Bhatia asked Joel Damon from JP Morgan, who was in the audience, if Staff accurately represented JP Morgan's position as far as their compliance. Mr. Damon said yes and thanked the Board for its decision to proceed with funding JP Morgan's contract based on the 2.5% provision.

Mr. Romero asked if this action by the Board solved the issues with the contracts for the remaining three investment firms. Mr. Wolfson replied it did and that only a few minor operational issues remained to be worked out with Risk Management staff.

17. Discussion of Update on Governance Issues

Ms. Bhatia reported this item was brought before the Board to discuss any update from the City Attorney's Office concerning the authority of the Retirement Board.

Assistant City Attorney Alan Manning stated his supervisor was still reviewing the matter and he had nothing new to report to the Board at this time.

Discussion ensued regarding the Board's dissatisfaction with the delayed resolution to this concern. Mr. Romero requested Mr. Manning's supervisor, Pete Echeverria, attend the next meeting to provide an update to the Board.

18. Discussion Regarding Selection of Alternate Investment Managers

There was no discussion on this item.

19. Retirement Plan Manager's Comments

Ms. Bhatia reported the Retirement budget would be discussed at the next Board meeting. She stated Staff from the Retirement Office and Financial Services recently met to discuss the draft preliminary budget. She mentioned the budget for future training was of concern. She also added the four positions previously requested and approved by the Board last year would be included in the Personnel budget.

In reference to Mr. Poole's question brought up during discussion of the governance issue, Ms. Bhatia stated the Retirement Office previously requested six additional positions (one Investment Officer, three Principal Clerks Utility, and two Clerk Typists).

Out of Order – (Item 17 reconsidered for discussion)

Mr. Poole commented that during discussion of Item 17, the Board had not taken an action regarding how to proceed with the governance issue considering the delay experienced in receiving a decision from the City Attorney's Office. Mr. Romero reiterated his suggestion that Pete Echeverria, the head of the Civil Division of the City Attorney's Office, should attend the next meeting and provide an update. Mr. Manning agreed to forward the Board's request to Mr. Echeverria. Mr. Romero requested the Governance item continue as a standing item on future agendas until its resolution.

Item 19 Continued

Ms. Bhatia reported the Plan amendment pertaining to the IRS provisions previously approved by the Retirement Board would be presented to the Board of Water and Power Commissioners on March 2, 2010.

Ms. Bhatia reported Systems testing continued and the next module consists of the ability to calculate retirement estimates, domestic relations orders estimates, and actuarial estimates.

She reported The Segal Company, the Plan's actuary, was working on the reciprocity study and was scheduled to present their report to the Board at the second meeting in March. She noted the report would be based on certain profiles and not on the entire cost of reciprocity. Ms. Higgins added The Segal Company was asked to produce various scenarios and determine the cost of each. Ms. Higgins also indicated a complete actuarial study could be conducted. Ms. Bhatia added that reciprocity information was reported on a lag basis because employee contributions were usually transferred to DWP a year after employees were hired.

Ms. Bhatia reported she received a copy of a motion made by the City Council's Budget and Finance Committee on December 16, 2009, that instructed the managers of the City's three pension systems to conduct an assessment of the March 26, 2009, report by the League of Women Voters relative to City retirement benefits. She stated the three pension systems were asked to report back on the feasibility of implementing the options contained in the report. She noted the heads of the two other pension plans were seeking direction from their respective Boards on how to proceed. Mr. Romero suggested Ms. Bhatia should attend the Council Committee meeting, if needed, and convey to the Committee that the League of Women Voters has no control over the DWP Retirement Plan.

20. Future Agenda Items

No future agenda items were requested.

There being no further business, the meeting adjourned at 1:04 p.m.



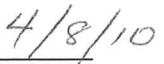
Javier Romero
Board President



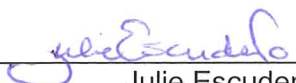
Date




Sangeeta Bhatia
Retirement Plan Manager



Date



Julie Escudero
Utility Executive Secretary



Date