

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

MINUTES

OCTOBER 13, 2010

Board Members Present:

Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Mario Ignacio, Chief Accounting Employee
Christina Noonan, DWP Commissioner

Board Members Absent:

Austin Beutner, Interim General Manager
Javier Romero, President *

Staff Present:

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

Others Present:

Paul Angelo, The Segal Company
D. Kirk Henry, The Boston Company
John D. Havens, The Boston Company
Michael Bowman, Invesco
Douglas J. Gooding, Invesco
Michele T. Garren, Invesco
Brian Hoesly, Pyramis
Neil Rue, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance
Marie McTeague, Deputy City Attorney

* (Arrived at 1:19 p.m.)

Vice President Coffin called the meeting to order at 10:07 a.m. following the Pledge of Allegiance.

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

Public Comments

There were no public comments.

Ms. Coffin introduced the new members of the Retirement Board: DWP Commissioner Christina Noonan and Chief Accounting Employee Mario Ignacio.

1. Request for Approval of Minutes

- a) August 18, 2010, Special Meeting
- b) August 25, 2010, Regular Meeting
- c) September 8, 2010, Regular Meeting
- d) September 8, 2010, Special Meeting

2. Request for Termination from Rolls

- Termination of Monthly Allowance from the September 1, 2010, Retirement Roll
- Termination of Markus Mathews and Jeanetta A. Matthews from October 2010 Family Death Benefit Roll
- Termination of Julia Ramirez from the October 2010 Survivorship Roll

Mr. Moore moved for approval of Items 1 and 2; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Coffin, Ignacio, Noonan, Poole, and Moore
Nays: None*

3. Report of Payment Authorizations for August 2010

4. Notice of Deaths for August 2010

5. Investment Reports

a. Summary of Investment Returns as of August 31, 2010

b. Market Value of Investments by Fund and Month as of August 31, 2010

c. Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of August 31, 2010

6. Report on Status of Insurance as of September 9, 2010

7. Report on Organizational Changes at Loomis Sayles & Company, L.P.

Mr. Moore moved for approval of Items 3 through 7 as Received and Filed, seconded by Mr. Poole, and carried after the following vote:

*Ayes: Coffin, Poole, Moore, Noonan, and Ignacio
Nays: None*

8. Presentation of Annual Actuarial Valuation of the Retirement Fund as of July 1, 2010, by The Segal Company; Discussion and Possible Action

Mr. Angelo provided an overview of the report and its effect on the Plan. He stated the two principle purposes of the report were to 1) measure the funding status of the Plan by comparing assets and liabilities and make any necessary changes, and 2) adopt employer contribution rates for the year.

He noted this was the first valuation to reflect the new actuarial assumptions that were adopted by the Board based on the July 2006-June 2009 experience study. He pointed out that by adopting this report, the Board would be resetting the immediate current year cost contribution rate to support long term benefits under the Plan.

He reviewed the actuarial losses for 2007-2008 and 2008-2009, and he reviewed asset smoothing and its effect on the actuarial losses. He discussed market value returns and actuarial returns. He noted the long-term earning rate was changed to 7.75% and stated the change in rate and demographic assumptions increased the Plan's contribution rate by approximately 5%.

He reviewed changes in salaries for the Department and the unfunded liability of approximately \$1.6 billion. He explained the sum of the normal cost and amortized unfunded actual accrued liability was used to calculate the contribution rate for the year.

In response to Mr. Moore's comment regarding the projections being similar to those of last year, Mr. Angelo replied that was due to the change in assumptions.

Mr. Angelo also discussed data correction, the reserve account, and he reviewed the numbers for active and retired members.

Mr. Moore moved for approval of Item 8 to adopt the July 1, 2010, Actuarial Valuation Report and its recommendations; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Coffin, Ignacio, Noonan, Poole, and Moore
Nays: None*

16. Discussion of the Status of the Proposed Suspension of the Reciprocity Program and Possible Program Changes; and Possible Action (OUT OF ORDER)

Ms. Coffin provided background on this item and explained that Mr. Romero and Ms. Bhatia were currently attending the City Council meeting where the Reciprocity item was being discussed. She reported it was also recently discussed at a joint Council Committee meeting.

Ms. Higgins stated the Board assigned Staff to 1) draft a Plan amendment to suspend the reciprocity arrangement while its fiscal impact could be determined, 2) expedite the actuarial cost study; and 3) develop a proposal to amend the Reciprocal Arrangement to protect both the Plan and the Los Angeles City Employees Retirement System (LACERS). She referred to the insert that described a California Public Employees Retirement System (CalPERS) style reciprocity program between the Plan and LACERS. Ms. Higgins explained that suspending the arrangement might impact an employee's decision to transfer between the two systems. To proceed, she requested the Board members direct the Retirement Plan Manager to transmit to Department management their views on how to proceed, for example 1) should the program be changed and how; 2) how should some or all service liability be recouped; 3) what were possible alternatives.

Mr. Moore recapped the discussion held at the recent joint Council Committee meeting. He suggested the Department meet with City staff to begin negotiations with LACERS to propose changes going forward. He also suggested the request to recoup the liability be addressed separately.

With respect to the City Council's jurisdiction, Deputy City Attorney Marie McTeague explained that although City Council has no jurisdiction over the Retirement Board's decisions, they have jurisdiction over the decisions of the Water and Power Commissioners per City Charter Section 245. She stated if the Council vetoed the DWP Commission's action to approve the resolution to amend the Plan and suspend the Reciprocity Arrangement, the resolution would go back to the DWP Commission without a recommendation.

Ms. Higgins clarified that the attached Resolution No. 11-30 adopted proposed changes to the program similar to the program used by CalPERS (described in the October 8 staff report) and instructed Staff to embark on recovering the previous losses.

Ms. McTeague recommended the resolution be changed to request the Retirement Board 1) approve the proposed changes listed in Staff's report dated October 8, 2010, and 2) instruct the Retirement Plan Manager to work with Department staff, the Mayor, the City Council, and the LACERS Board to recoup past service liability; and transmit the recommendations to the Mayor, City Council, and the LACERS Board.

Mr. Moore moved for approval of Item 16 and Resolution No. 11-30 with the changes made by Counsel; seconded by Mr. Poole, and carried after the following vote:

Ayes: Coffin, Ignacio, Noonan, Poole, and Moore

Nays:None

(The Board recessed at 11:02 a.m. and the meeting reconvened at 11:11 a.m.)

9. Annual Presentations by International Developed Equity Mandate Managers

a. The Boston Company Asset Management, Inc.

Ms. Coffin acknowledged John Havens and Kirk Henry from The Boston Company (TBC).

Mr. Havens gave a brief overview of the firm and highlighted their investment philosophy.

In response to Mr. Moore's question regarding the Plan's \$347 million mandate comprising one quarter of TBC's \$1.4 billion holdings, Mr. Haven replied that amount did not include other strategies and a better measure would be \$5-6 billion in international developed markets and \$8 billion in emerging markets. He noted that although TBC's performance for the year was not as favorable as expected, their three year overall performance was good and was consistent with their goal of outperforming over the long term.

Mr. Henry reviewed TBC's strategies based on position in the business cycle and consideration of micro and macro trends, and he stated they mitigate risk through region, country, and industry diversification.

He concluded the presentation by reviewing the country and performance attributions and country and sector weights.

b. Invesco Global Asset Management, Inc.

Ms. Coffin acknowledged Michael Bowman, Michele Garren, and Doug Gooding from Invesco Global Asset Management, Inc. (Invesco).

Mr. Bowman gave an overview of the firm and emphasized they were not bank owned and were strictly an investment manager.

Mr. Bowman addressed the organization change at Invesco and the departure of Chief Investment Officer (CIO) Erik Granade. He indicated Invesco eliminated the CIO position to focus on a more team-based investment style. He noted Mr. W. Lindsay Davidson would oversee all of the investment committees in the absence of the CIO position.

Mr. Bowman reviewed the key points of Invesco's investment philosophy and process and acknowledged their extreme sensitivity to risk. He also reviewed the portfolio characteristics.

Ms. Garren reviewed the portfolio's performance for the year. She highlighted value versus growth and the uncertainty in the market as well as geographic attribution and the relationship of developed and emerging markets. She stated the volatility in the market is driving a high turnover within the portfolios.

She highlighted trends per sector and geography, as well as the top ten holdings. She also reviewed the sector weights and country weights.

c. Pyramis Global Advisors Trust Company

Ms. Coffin acknowledged Brian Hoesly from Pyramis Global Advisors Trust Company (Pyramis).

Mr. Hoesly updated the Board on staff changes at the firm. He reviewed Pyramis' process and style for selecting stocks. He gave a market overview with respect to the individual quarters for the year and pointed out the risks that applied. He stated he was comfortable with long term measurement for performance and pointed out that he would revisit their regional allocation with the Board at a later meeting. He spoke briefly about top contributors and detractors from the market, he reviewed the sector attributions and sector weights, and he reviewed the portfolio's top ten holdings.

10. Discussion of Recommendation to Approve the Consent Solicitation Issued by Oaktree Capital Management Principal, LP; and Possible Action

Mr. Wolfson provided an overview of Oaktree's Limited Partnership agreement and explained the consent was to seek approval to amend the "amended and restated" limited partnership agreement. He stated it was common that the required majority vote was received before the request could be brought before the Board, thus, this request was for record-keeping purposes.

Mr. Moore moved for approval of Item 10 and Resolution No. 11-24 to grant the consent; seconded by Mr. Poole, and carried after the following vote:

Ayes: Moore, Poole, Coffin, Ignacio, and Noonan

Nays: None

11. Discussion of Organizational Changes at Pacific Alternative Asset Management Company; and Possible Action

Mr. Wolfson provided the background for this item which recommended the Pacific Alternative Asset Management Company (PAAMCO) be placed on organizational watch status for six to twelve months due to a significant change in the equity structure of PAAMCO Founders, LLC. He explained that Donald Sussman, who had made a substantial loan to PAAMCO Founders, LLC (Founders), a separate company holding the interest of PAAMCO's four founders, was able to convert his loan into a non-controlling 40% equity ownership in Founders.

Ms. Coffin acknowledged David Sancewich from Pension Consulting Alliance (PCA) and asked if this had been discussed during the initial due diligence. Mr. Sancewich responded that during the Request for Information process, PAAMCO had disclosed this transaction as a debt obligation and not part of its ownership structure.

Neil Rue from PCA added that increased due diligence steps will be taken in the future to determine not only the financial structure of a company but also the ownership structure.

Mr. Moore asked if this action would change the outlook of PAAMCO's founding partners and if there was a possibility any of them would leave. Mr. Sancewich replied that the four founding partners had not signed an agreement to stay and it was definitely a valid concern. He also emphasized that PCA will monitor this situation closely and report back to the Board with recommendations.

Mr. Poole asked if PAAMCO had misled the Plan and PCA by not disclosing this information earlier, and Mr. Wolfson replied that PAAMCO had been straightforward and, because this was in the litigation process at that time, PAAMCO had provided as much information as possible that was not considered confidential.

Mr. Moore moved for approval of Item 11; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Moore, Poole, Coffin, Ignacio, and Noonan
Nays: None*

12. Discussion of Plan Amendment to Enhance the Distribution Methods Available Under the Additional Annuity Program; and Possible Action

Ms. Higgins provided an overview of the options that would be made available to employees as a result of this proposed Plan amendment. She reported that the Department and the affected bargaining units negotiated a cost-neutral amendment to allow employees to 1) receive a lump sum amount, 2) roll the funds into a qualified retirement plan, 3) receive an additional annuity; or any combination of the three.

She noted the interest crediting would be addressed next, once the Board reevaluated the approved amounts, and it would be handled as a separate item at a future meeting.

In response to a question from Ms. Coffin, Ms. Higgins stated the existing rules will still apply once a member chooses an option.

Mr. Ignacio asked if tax counsel had been sought to follow 415 guidelines and testing, to which Ms. Higgins stated testing procedures are underway and will be in place shortly. She explained how employees will be affected individually.

Mr. Moore moved for approval of Item 12 and Resolution No. 11-26; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Moore, Poole, Coffin, Ignacio, Noonan
Nays: None*

13. Discussion of Request to Approve the Annual Transfer of Funds from the Reserve for Investment Gains and Losses Account to the General Reserve Account; and Possible Action

Ms. Carranceja reviewed the procedures for the annual transfer of funds from the Reserve for Investment Gains and Losses Account to the General Reserve Account. She stated this year the amount to be transferred was \$359 million.

Mr. Moore moved for approval of Item 13 and Resolution No. 11-27 ; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Moore, Poole, Coffin, Ignacio, and Noonan
Nays: None*

14. Ratification of the Board's Action to Approve an Expenditure Allowance Associated with Change Order Requests for the Integrated Pension System Project; Discussion and Possible Action

Ms. Carranceja reported that at the September 8, 2010, Regular Retirement Board meeting the Board and Staff discussed two necessary change orders for the Integrated Pension System. She further reported that, at that time, the Board authorized a discretionary amount to be expended as necessary to implement the new system, and the attached resolution would ratify the action taken by the Board on September 8.

Mr. Moore moved for approval of Item 14 and Resolution No. 11-28; seconded by Mr. Poole, and carried after the following vote:

*Ayes: Moore, Poole, Coffin, Ignacio, Noonan
Nays: None*

15. Discussion of Request to Amend Retirement Office Annual Personnel Resolution for Fiscal Year 2010-2011; and Possible Action

Ms. Higgins reviewed Staff's report and noted considerable discussion has previously taken place concerning this issue. She stressed the importance of having these previously approved positions permanently filled, and reported the Personnel Department will no longer approve filling these vacancies with "Limited" positions.

Mr. Moore requested Staff revise their report and provide more detailed information and statistics related to the workload of all the applicable sections. He emphasized the importance of strengthening the justification to demonstrate the burden caused by the lack of sufficient staffing.

Staff acknowledged that some Board members had received agenda packages with an incomplete staff report for this item, and Staff indicated that complete reports will be provided to all of the Board members by the next meeting.

Extensive discussion ensued and it was the consensus of those present that this item should be brought back to the Board with specific detailed information to clearly demonstrate the need for these positions, and that once the Retirement Board was satisfied with the report, it would be forwarded to Department management.

Ms. Higgins stated she would conduct further research to provide the Board with the information requested.

(The Board recessed at 1:14 p.m. and the meeting reconvened at 1:20 p.m. at which time Mr. Romero and Ms. Bhatia had joined the meeting.)

17. Discussion of the Status of the Approved Budgeted Positions for the Retirement Office; and Possible Action

Discussion of this item was combined with Item 15 and no new information was discussed.

18. Discussion of City Attorney's Report on Governance Issues; and Possible Action

Mr. Poole provided the history of this item for the benefit of the new Retirement Board members, and he reviewed how two conflicting opinions exist concerning the authority of the Board regarding staffing levels. He stated that because the need to fill specific positions as discussed in Item 15 was still in progress, he requested this item be removed from the agenda.

16. Continuation of Discussion of the Status of the Proposed Suspension of the Reciprocity Program and Possible Program Changes; and Possible Action (OUT OF ORDER)

President Romero provided an update of the City Council meeting from which he and Ms. Bhatia has just returned. He informed the Board that the City Council invoked their 245 authority to assume jurisdiction of the DWP Board's action to approve the reciprocity suspension Plan amendment. He said he believed the Council was unclear on the specifics of the item and noted additional research may be needed to find another avenue to get the reciprocity amendment passed.

19. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a), to confer with legal counsel and potentially take action regarding pending litigation in which the Board is a claimant, In re: Bankruptcy of Moeller, and Board of Administration v. Moeller

This item was tabled.

20. RETIREMENT PLAN MANAGER'S COMMENTS

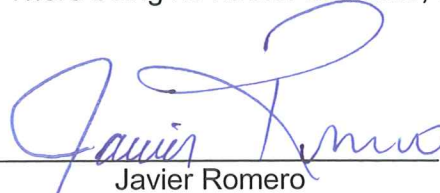
Ms. Bhatia expanded on Mr. Romero's comments about the City Council meeting. She stated the Council vetoed the DWP Commission's action and requested staff to return with information on alternatives to suspending the Reciprocal Arrangement. She also updated the Board on her attendance and discussion at several other Council committee meetings with respect to the reciprocity amendment.

She also reported that testing on the new system continued.

21. FUTURE AGENDA ITEMS

No items were requested at this time.

There being no further business, the meeting adjourned at 1: 30 p.m.



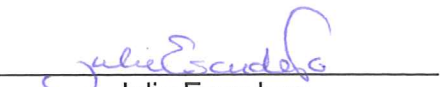
Javier Romero
Board President

11/10/10
Date



Sangeeta Bhatia
Retirement Plan Manager

11/10/10
Date



Julie Escudero
Utility Executive Secretary

11.10.10
Date