

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

MINUTES

MARCH 9, 2011

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Mario C. Ignacio, Chief Accounting Employee
Michael Moore, Retiree Member
Ronald O. Nichols, General Manager
Christina E. Noonan, DWP Commissioner
Barry Poole, Board Member

Board Members Absent:

None

Staff Present:

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

Others Present:

Marie McTeague, Deputy City Attorney
Mike Moy, Pension Consulting Alliance
Neil Rue, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance

President Romero called the meeting to order at 10:02 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. Request for Approval of Minutes – February 9, 2011, Regular Meeting

Mr. Moore asked for clarification of the use of "points" in the following sentence on page 1.2 of the minutes:

" . . . Ms. Lord responded . . . the international selection was driven by currency as opposed to points in a specific country."

Staff will review the tape and amend the statement as necessary. There were no other changes to the minutes.

{Note: Upon review, the minutes were amended as follows: *" . . . Ms. Lord responded . . . the **currency** selection was driven by currency as opposed to **credits within the foreign** country."}*

2. Report on Organizational Change at Pyramis

Mr. Moore moved for approval of Items 1 and 2; seconded by Ms. Coffin.

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

Nays: None

THE MOTION CARRIED

8. Discussion of Retirement Office Budget for Fiscal Year 2011-2012 (OUT OF ORDER)

Ms. Bhatia reviewed the proposed Retirement Office Administrative Expense Budget for Fiscal Year 2011-2012 and noted it reflected a decrease of over \$200,000 from the previous fiscal year and most of the line items were held to the 2010-2011 levels or reduced.

She reported the Salary line item reflected funding for 59 positions, which was a reduction from the 64 positions approved by the Retirement Board from the prior two fiscal years, but which were not incorporated into the Department's Annual Personnel Resolution (APR).

Ms. Bhatia reviewed the background concerning the issue of whether the Retirement Board or the DWP Board of Commissioners has the authority to determine Retirement Office staffing levels and the responsibility for the Retirement Plan budget. She explained the Retirement Board sought legal advice from the City Attorney's Office and from outside legal counsel and received contradictory opinions. The City Attorney's Office stated the DWP Board of Commissioners should review the Retirement Plan budget separately from the other divisions' budgets in the Department because the Retirement Board has the sole authority to administer the Plan and should be given due consideration and deference. The opinion also recommended a special budget review process be established to provide the Retirement Office an opportunity to justify its budget; however, that process has not yet been developed, and the Retirement Board considers that issue unresolved as of now.

She reported that although the proposed budget does not reflect any additional positions, the proposed APR does include some necessary reclassifications as a result of the implementation of the new system as well as the increased complexity of work with respect to legislation compliance matters.

She reviewed the Travel and Training line item and acknowledged it remained at the same level as the previous year. She noted it included minimum training for Board Members and Staff, as well as essential due diligence site visits which Staff is required to conduct. She stated Retirement staff met with Financial Services staff to review the line items and discussed travel and why it was necessary. She noted the Department has eliminated all travel except that which is critical to operations, so approval for travel is not guaranteed.

Several Board Members voiced their concern that due diligence site visits and required fiduciary training, which had not occurred during the past year because of other priorities and cost cutting efforts, might be denied again due to budget constraints, which could hinder the Board's ability to carry out its fiduciary responsibilities.

Mr. Moore commented that, given the changes in the composition of the Retirement Board and the changes in the Department's executive management and DWP Board, this might be a good opportunity to work more closely together than in the past so the newer Board Members have a better understanding of the concerns of the veteran Board Members, while at the same time understanding the cost issues and other items of concern for the DWP Board. He stated he believed the Retirement Board should make sure the budget is presented in such a way as to make a good case for it given the Retirement Board's fiduciary responsibilities for not only the investments but also for the delivery of benefits, and that it is important to have positive and productive discussions.

Ms. Bhatia next reviewed the Other Professional Services line item which was increased to cover additional foreign exchange transaction costs. She noted the increase was expected to be offset by savings through best execution practices. She stated this item includes costs for a printer license

and software utilized by the Retirement and Disability Sections, as well as the Department's Payroll Office and Health Plans Office, but which is budgeted through the Retirement Office. She reported Other Professional Services also includes anticipated costs related to the implementation of the new system, and reflects higher investment fees which are expected to increase by approximately \$4.5 million. She explained that investment fees are calculated based on the assets managed as well as the strategy used.

Discussion ensued regarding the practicality of active versus passive management of the Plan's portfolios. Neil Rue from Pension Consulting Alliance (PCA) remarked the Plan currently paid lower than average fees versus its peers. He stated that once the asset liability study and strategic allocation of the portfolio were finalized, the Board could examine the major asset classes and revisit the structures of each to determine the best style(s) in which to manage the funds.

Ms. Bhatia concluded her presentation. She stated approval of the resolution would result in adoption of the administrative expense budget and the APR. She stated the Retirement Office budget and APR would be submitted to the Board of Water and Power Commissioners for inclusion with the Department's APR.

Mr. Moore asked what difficulties the Retirement System has been experiencing in accomplishing all of its obligations given that the personnel budget has remained basically unchanged.

Ms. Bhatia responded the Retirement Office can no longer extend the appointment of the Limited Clerk Typist Positions assigned to the Scanning Unit so Staff has begun training other personnel in the office to assume some of those functions. She stated the lack of dedicated staff causes delays and puts constraints on the continuous requirement to validate employee records when employees apply for retirement. She further stated verification of data is also delayed when after-the-fact retroactive checks or retroactive adjustments must be made, and the biggest risk associated with this is the potential for inaccurate benefit payments.

In response to a question from Ms. Noonan, Ms. Bhatia stated staff audits cases on an individual basis at the time someone applies for retirement as opposed to having information in the system ready for them to be able to retire. The risk is not having the controls in place to confidently say accurate information is available.

She further stated routine tasks such as issuing the 1099s, paying Cost of Living Adjustments, etc., require a tremendous effort.

Mr. Moore moved for approval of Resolution No. 11-75 to adopt the Retirement Office Budget and the Annual Personnel Resolution for Fiscal Year 2011-2012; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

4. Presentation by T. Rowe Price Emerging Markets – Annual Performance Review as of December 31, 2010 (OUT OF ORDER)

Mr. Romero recognized John Plowright, Client Services, and Todd Henry, Emerging Market Equities.

Mr. Plowright reported the current assets as of the end of January, 2011, were \$131 million and the initial investment of \$45 million was made in March 2005. He then provided an update on the firm.

Mr. Henry reviewed the emerging markets team, talked about the resources dedicated to the emerging market equity area, and discussed performance.

He indicated the portfolio since inception was up 14% versus the benchmark at 15%. He noted they have not met their internal target of outperforming the benchmark by 300 basis points, primarily as a result of the financial crises, but also in part due to their investment style and to errors made in 2008. He added they have learned from their mistakes and are on their way to rebuilding their performance.

In response to a question from Ms. Coffin regarding the impact to the portfolio, if any, from the turmoil in Libya and the Middle East, Mr. Todd explained the portfolio has little exposure in the Middle East and North Africa.

Mr. Moore asked about the moderate returns for China and Brazil. Mr. Todd explained that China had implemented financial stimuli during the global financial crisis, and he believed the returns would improve now that some of that stimulus had been discontinued. As for Brazil, he stated the uncertainty over who would win the recent Brazilian elections was now over, and Brazilian growth continues to be strong.

Mr. Moore asked about the underweights in materials and energy. With regard to energy, Mr. Todd commented the portfolio has exposure in regions that benefit from higher oil prices so even with an underweight at the stock level, the portfolio has exposure in countries that benefit from rising oil prices. He added the underweight in materials is small.

At the end of the presentation as Mr. Nichols prepared to depart the meeting, Mr. Moore interjected, with respect to his earlier motion to adopt the budget, that his intent was not to rush it through without an opportunity for the newer members to feel comfortable with everything.

Mr. Nichols expressed his appreciation for Mr. Moore's comment and said he believed the Board should take a good comprehensive look at the actively managed versus the passively managed funds and have a comprehensive assessment before the Board makes any incremental decisions going forward on any individual funds and advisors.

To that, Ms. Noonan asked for the status of the information regarding the fees paid by other systems, which she requested at the previous meeting.

With respect to Mr. Nichols comment, Ms. Bhatia mentioned that an asset liability study (the third since the Board decided to use full discretion investment management) was being developed and would be brought back before the Board either at the next meeting or the one following that. She stated that would be a good time to examine all of the various asset classes, risk implications, performance, etc., and discuss possible changes to the current asset allocation.

With respect to Ms. Noonan's request, Ms. Bhatia explained staff was in the process of gathering information from the different pension plans in the state with respect to the fees, and that would be brought back to the Board. She also stated Staff had recently provided Ms. Noonan with an electronic copy of PCA's contract which included fees.

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

3. Discussion of Performance of T. Rowe Price Emerging Market (OUT OF ORDER)

Mr. Wolfson provided the background for this item which recommended the Board direct Staff to begin the Request for Proposal (RFP) process for a new International Emerging Market Equity Manager due to the extended tenure of T. Rowe Price on watch status and allow T. Rowe Price to participate in the RFP.

Mr. Wolfson reviewed the staff report and explained the three options available to the Board were to: 1) extend the watch status for T. Rowe Price for an additional six months; 2) direct Staff to proceed with a Request for Proposal (RFP) for a new manager and allow T. Rowe Price to participate in the RFP; and 3) terminate T. Rowe Price and proceed with the RFP. He noted Staff and PCA recommended the second option.

For the benefit of Ms. Noonan, Mr. Wolfson explained the RFP process and stated a copy of the RFP would be brought for the Board to review.

In response to a concern from Ms. Coffin that seeking the same type of manager might yield the same results, Neil Rue from Pension Consulting Alliance (PCA) said that could happen and added that T. Rowe Price had outperformed the majority of the other managers who would likely respond to the RFP.

Ms. Noonan asked if PCA received a referral fee for introducing the Board to certain companies. Mr. Rue explained that PCA is only compensated through the servicing contracts they have with their plan sponsor clients, which is just a retainer, and receives no other remuneration.

Ms. Coffin asked if site visits were performed as part of the RFP process. Ms. Bhatia responded Staff has not performed site visits in the past, but PCA has. Mr. Rue explained that once PCA narrows down the candidate list to the pre-finalists, they typically perform site visits and determine the final candidates. He added it could be a collaborative effort with Staff if the Board so chooses.

Ms. Bhatia noted Staff has alternated in the past between 1) providing the Board with the names of all applicants and the ratings received by PCA; and 2) providing just the top few candidates. She suggested Staff provide the Board with a list of applicants with PCA's grading to help determine the final number of candidates. Mr. Romero said he would like to see who made the list, who did not, and why.

David Sancewich from PCA stated all of that was included in the current process and provided to the Board.

Mr. Romero suggested the Board determine how many candidates to interview based on ratings from PCA rather than PCA fine-tuning the list of candidates. He also asked that the Board be provided with a copy of PCA's rating criteria.

Ms. Bhatia stated Staff works with PCA to determine the minimum criteria that applicants must meet and that is included in the RFP and in the advertisement for the RFP.

Mr. Moore added he would like to have the insurance criteria reviewed so companies that would otherwise be worth considering are not eliminated.

Mr. Moore moved for approval of Resolution No. 11-74 to proceed with the RFP process and to allow T. Rowe Price to participate in the RFP; seconded by Ms. Noonan.

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

Nays: None

Absent: Nichols

THE MOTION CARRIED.

(The Board recessed at 11:35 a.m. and reconvened at 11:42 a.m.)

5. Presentation by The Boston Company Emerging Markets – Annual Performance Review as of December 31, 2010

Mr. Romero acknowledged John Havens and Warren Skillman from The Boston Company.

Mr. Havens reviewed the management team and noted Dave Cameron will be leaving the firm as Chairman and Chief Executive Officer, which should have no impact on the Plan's investment team.

Mr. Havens provided an overview of the firm and its philosophy and process. He reviewed the investment performance and noted the portfolio lagged the index by 180 basis points for the one-year period and had a 19% return, while the three- and five-year numbers strongly out-performed.

Mr. Romero asked for the net-of-fees performance, to which Mr. Havens stated the figures provided were gross-of-fees; however, he estimated the net-of-fees performance was approximately 90 basis points. Mr. Romero requested net-of-fees figures be provided in all future reports from all managers.

Mr. Havens reviewed the value of the portfolio in various market conditions and reported significant value was added in 40 of the 59 observations.

Mr. Skillman reported on the absolute returns which were at 80% for 2009 with an additional 20% for 2010. He stated that on a rolling two-year basis from February 2011, the absolute return was over 130%. He concluded the presentation with a review of performance attributions, country weights, portfolio structure and characteristics, and sector weights.

6. Presentation by Pension Consulting Alliance, Inc. – Fourth Quarter Hedge Fund of Funds Performance Report as of December 31, 2010

Mr. Romero acknowledged David Sancewich of Pension Consulting Alliance (PCA.)

Mr. Sancewich provided an overview of the Plan's investment in the Hedge Fund of Funds (HFoF) asset class for quarter ending December 2010. Mr. Sancewich noted the Plan's HFoF investment managers added significant value by outperforming the policy benchmark in the short term (for the month of December, quarter to date, year to date, and one year period.) He added the Plan's HFoF managers outperformed their peer group since inception by 320 basis points.

Mr. Sancewich noted Aetos is currently the Plan's only HFoF manager due to the termination of the contract with PAAMCO in December 2010. He added PCA is currently satisfied with Aetos' performance and has no concerns with the manager.

Mr. Moore asked Mr. Sancewich what options are available to replace PAAMCO to which Mr. Sancewich replied that PCA and Staff will consider all available opportunities and options once the asset liability study is complete and an asset allocation has been determined. He noted one option would be to have Aetos customize their HFoF portfolio.

7. Presentation by Pension Consulting Alliance - 2011 On-Site Due Diligence Schedule

No discussion took place on this item.

10. Retirement Plan Manager's Comments (OUT OF ORDER)

Ms. Bhatia reported the funding for the Los Angeles City Employees' Retirement System (LACERS) for the reciprocity design change has been approved through the Financial Services Organization's contract with The Segal Company, and the studies will proceed.

She reported due diligence site visits to investment managers are planned beginning in April.

She also reported a meeting was held with staff from Financial Services regarding the Retirement Office budget, and the issue of positions being substituted without prior communication was discussed.

Ms. Bhatia stated the Plan amendment regarding the change in the Regular interest rate is scheduled for the March 15 Water and Power (DWP) Commission meeting.

She reported that also scheduled for the March 15 DWP Commission meeting is an announcement for applications for the Retiree Representative on the Retirement Board. She shared that Mr. Moore's term ends on June 30, 2011, and he has indicated he will not be pursuing another term as the Retiree Representative. She declared this as a huge loss to this Board. She stated Retirement Office Staff is coordinating with the DWP Commission Office, and will be sending notices to the retiree population via the retirement checks and deposit advices. She added the notices will be sent following approval at the DWP Commission meeting, and the intent is to have someone in place prior to the end of Mr. Moore's term so the appointee can start in July.

Mr. Moore stressed he is not choosing to depart because of a lack of interest; but, rather, to honor other family priorities. He stated he is definitely interested and will continue to monitor the activities.

Mr. Romero stated Mr. Moore will certainly be missed and that the previous selection committee made an excellent decision with the selection of Mr. Moore. He added Mr. Moore has been superb with no agenda other than what was best for the Plan, and he has been key in doing the right thing. Other members echoed Mr. Romero's words and added Mr. Moore will be greatly missed, and the Board will have a void without him.

11. Future Agenda Items (OUT OF ORDER)


No future agenda items were discussed at this time.

The Board entered a Closed Session at 12:23 p.m. to discuss Item 9.

9. **CLOSED SESSION** pursuant to Government Code Section 54956.9(c) to confer with legal counsel regarding possible initiation of litigation in one potential case

The Board met back in Open Session at 1:19 p.m.

With no further business to discuss, the meeting adjourned at 1:19 p.m. in the name of Foresce Hogan-Rowles.



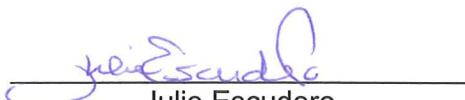
Javier Romero
Board President

4/27/11
Date



Sangeeta Bhatia
Retirement Plan Manager

4/27/11
Date



Julie Escudero
Utility Executive Secretary

4-27-11
Date