

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

MINUTES

February 8, 2012

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Ronald O. Nichols, General Manager*
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

(*arrived later)

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

President Romero called the meeting to order at 9:07 a.m.

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

Public Comments

Ms. Escudero stated no public comments were requested at this time.

1. Request for Approval of Minutes for December 14, 2011, Regular Meeting

Mr. Rozanski moved that the Board approve Item 1; seconded by Ms. Coffin.

Ayes: Coffin, Poole, Romero, and Rozanski

Nays: None

Absent: Ignacio and Nichols

THE MOTION CARRIED.

2. Litigation by the Los Angeles City Attorney Against Northern Trust Corporation and Pension Consulting Alliance

Mr. Rozanski moved that the Board accept Item 2; seconded by Ms. Coffin.

Ayes: Coffin, Poole, Romero, and Rozanski

Nays: None

Absent: Ignacio and Nichols

THE MOTION CARRIED.

3. Presentation by Loomis, Sayles & Company, High Yield Investment Manager - Annual Performance Review as of December 31, 2011

The Board acknowledged Stephanie Lord, Vice President of Loomis, Sayles & Company. Ms. Lord provided an update on the firm.

She reviewed the portfolio's performance and stated the net of fee return for the year ended December 31, 2011, was 1.55%, the three-year gross return was 24.5%, and the since-inception gross return was 7.97%. She stated in 2011 the portfolio underperformed the benchmark with 1.5% net of fees versus the benchmark at approximately 5%, explaining the portfolio's exposure to convertibles was the main detractor.

She reported the portfolio's yield to maturity was up to 8.87% compared to last year at 6.29%.

Mr. Nichols entered the meeting at 9:13 a.m.

Ms. Lord reviewed the economic and macro environment outlook. She stated the firm is concerned with the financial situation in Europe, and they are also watching China.

6. Discussion of International Developed Markets Active Equity Manager Request for Proposals (OUT OF ORDER)

Mr. Wolfson presented the background on this item to replace The Boston Company as the Plan's International Developed Markets Active Equity Manager with a more relative value mandate.

Neil Rue from Pension Consulting Alliance (PCA) discussed the results of the Request for Proposal (RFP) and recommended the Board interview the five candidates who met all of the minimum qualifications.

Mr. Rozanski moved that the Board interview the five candidates recommended by PCA; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero, and Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

7. Discussion of Consent to Extend the Fundraising Period for Bristol Value Fund II

Mr. Wolfson presented the background on this item to extend the fundraising period for the Bristol Value Fund II to March 15, 2012, and he turned the report over to representatives of Courtland Partners, the Plan's Real Estate Consultant.

The Board acknowledged Stanley Kim and Lourdes Canlas from Courtland who provided a more detailed account of the extension request. Mr. Kim stated the fund has additional investors who are in the final stages of approval, and the requested extension will allow them time to complete the documentation process.

Mr. Kim stated the additional investors will bring the committed capital up to approximately \$178 million (short of the anticipated \$250 million). Ms. Canlas added the capital raising will stop with these additional investors, and the five-year investment period remains unchanged with draw downs anticipated to begin in 2012.

Mr. Rozanski moved that the Board approve Resolution No. 12-55 to extend the fundraising period for Bristol Value II; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero, and Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

8. Consideration of Additional Funding for Actuarial Services Related to Programming of Internal Revenue Code Testing Rules

Ms. Higgins provided the background for this request for additional funds in connection to the development of testing rules for the Integrated Pension System (IPS). She reported the Plan's actuary identified sample members for the various testing rules, but because of the complexity of the Internal Revenue Code (IRC) Section 415(b), additional samples were needed which increased the cost from the original estimate. Additionally, she stated the tables and rules that will be incorporated into the IPS will need to be validated once the program is implemented. She stated an additional \$50,000 was being requested to pay for the work the actuary has already performed and to pay for the necessary validations.

Mr. Romero expressed his concern as the actual cost of actuarial services historically has often ended up being higher than the original estimate, and he wondered if it would be more prudent to have a pool of actuaries to see if any others could provide the same services for less money. Ms. Higgins said that could be addressed during the next Request for Proposal (RFP) process; however, the last time Staff advertised for RFPs for actuarial services, they received only two responses.

In response to Mr. Rozanski's question of why Staff did not ask for additional funds prior to the work being performed, Ms. Higgins stated the testing needed to be performed a number of times, and Staff underestimated the number of iterations and had not asked for updates during the process.

Mr. Rozanski asked if the Department's internal audit group can perform the system validation, and Ms. Higgins stated the system will also be validated by the Department's internal audit group, but best practices normally dictate that the actuary would also validate the information; however, Staff will investigate whether the Department's internal audit group will be sufficient.

Discussion ensued regarding actuarial services and whether the Board should seek a new actuary or use alternative actuaries for piece work. Ms. Bhatia stated time is a factor in this situation; however, Staff can pursue other options and update the Board on what they discover.

Mr. Nichols moved that the Board approve Resolution No. 12-56 with the understanding that options other than exclusively using the existing actuary be pursued in the future; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero, and Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

9. Discussion of Salary Parity for the Chief Investment Officer

Mr. Nichols stated he would prefer to table this item and obtain legal advice due to the personnel nature of the matter. Deputy City Attorney Marie McTeague advised this item be tabled for now and agendaized later for a Closed Session.

Mr. Romero requested this item be brought back at the next meeting.

12. Selection of International Developed Passive Equity Manager - Interviews, Discussion, and Possible Board Action (OUT OF ORDER)

Mr. Wolfson introduced this item to select a new International Developed Passive Equity Manager. He stated that as a result of the restructuring of the International Developed asset classes, the Board chose to change the International Developed Equity mandate from active to passive management.

Mr. Romero acknowledged Neil Rue of Pension Consulting Alliance (PCA) who reviewed a summary of the candidate statistics and the Request for Proposal response materials. Following the review, the Board interviewed the following candidates:

- a) BlackRock
- b) Mellon Capital Management

(Mr. Nichols left the meeting at 10:22 a.m.)

The Board recessed at 10:50 a.m. and reconvened at 10:58 a.m.

Mr. Rue provided an overview after the conclusion of the interviews, and discussion ensued among the Board Members, PCA, and Staff regarding the responses.

It was the consensus of those present to defer the selection pending answers to the Board's questions with respect to a separate or commingled account, how foreign exchange issues will be handled, if lower fees can be negotiated, and if a commingled account can be customized to limit exposure in Sudan.

4. Presentation by Wells Capital Management, High Yield Investment Manager - Annual Performance Review as of December 31, 2011 (OUT OF ORDER)

The Board acknowledged Steve Scharre and Niklas Nordenfelt from Wells Capital Management (Wells).

Mr. Scharre thanked the Board for extending their contract. He provided a brief review of the firm and noted the firm remains within the investment guidelines for both the retirement fund and the health plan portfolio.

Mr. Nordenfelt reviewed the portfolio's performance and stated 2011 was a highly volatile year for high yield investments which was good for their management style. He explained they generally outperform the benchmark in a volatile environment and generally underperform in strong markets. He reported the portfolio outperformed the benchmark by 82 basis points, and he attributed most of that to security selection. He reported the volatility in the portfolio for 2011 was 70% of the benchmark, and the portfolio has historically had higher returns on a risk adjusted basis.

He reviewed the market environment, risk aversion, market leverage, and market liquidity. He closed by stating the portfolio performed much as expected.

5. Presentation by Courtland Partners, Ltd. –Third Quarter 2011 Real Estate Portfolio Performance

The Board acknowledged Lourdes Canlas. Ms. Canlas reported the value of the real estate portfolio as of September 30, 2011, was \$150.5 million and, based on the value of the Plan's assets at that same time, the portfolio represented 1.9% of the total Plan investment portfolio. She reported \$93 million of commitment has yet to be called, but noted the Board recently made a commitment of \$20 million to Angelo Gordon, \$25 million to PCCP, and \$20 million to Almanac Realty which brings the portfolio closer to 4% of the 5% target.

Ms. Canlas commented on the performance of real estate in general during the third quarter. She reported the Plan's real estate portfolio for the one year period outperformed the index with a 23.7%

gross return and a 21% net return versus 16.1% for the NCREIF index. She noted that over one half of the return was a result of the appreciation component. She added the fundamentals of real estate are beginning to improve.

She reviewed the summary of the portfolio's net returns for the one year period with 19.2% for Core investments and 24.6% for Value-Add investments. She noted the one-year return was not available for the Opportunistic investments because both of the Lonestar funds did not start calling capital until the second quarter of 2011.

She reviewed the portfolio's risk/return profile and noted the heavy weighting in Core investments at 65%. She stated as capital is called and new investments are made, that percentage will be reduced. She added Courtland is being very selective in its Core investments at this time because of the pricing for Core.

She reviewed the portfolio's property type and geographic diversification, manager concentration, and leverage.

10. Discussion of Election of the Active Employee Members to the Retirement Board

Ms. Bhatia reported the DWP Board of Commissioners approved the election guidelines at the February 7, 2012, Commission meeting. She reported the report before the Retirement Board includes the calendar for the upcoming election.

Mr. Romero noted that usually the Retirement Board reviews the election item prior to it going before the Board of Commissioners.

11. Discussion of Extension of Contract with Outside Tax Counsel

Deputy City Attorney Marie McTeague reported the City Attorney's Office was requesting authorization to proceed with a Request for Proposal (RFP) for outside tax counsel to provide tax law advice to the Retirement Board and the Plan, and a copy of the draft RFP was provided for the Board's review. She stated the City Attorney's Office was also recommending extending the contract with the current tax counsel (Ice Miller) for four to five months to ensure uninterrupted services during the RFP process.

Mr. Romero said he was comfortable with extending the current contract but was not yet comfortable with the RFP. He had several questions regarding the fairness of the selection process and the fee structure. Mr. Rozanski asked if the Department's adopted policy that a percentage of the firms be local businesses was being considered. Ms. McTeague said she will get answers to all of the Board's concerns and will report back to the Board.

Mr. Rozanski moved that the Board approve the extension of the contract with the current outside tax counsel through June 15, 2012; seconded by Ms. Coffin.

Ayes: Coffin, Poole, Romero, and Rozanski

Nays: None

Absent: Ignacio and Nichols

THE MOTION CARRIED.

13. Reports for Reference

Investment Reports for December 2011

- a) Summary of Investment Returns as of December 31, 2011**
- b) Market Value of Investments by Fund and Month as of December 31, 2011**
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of December 31, 2011**
- d) Summary of Contract Expirations**

These items were included for reference only and required no discussion.

14. Retirement Plan Manager's Comments

Ms. Bhatia stated the Board Members received handouts regarding training offered by the California Association of Public Retirement Systems and the Los Angeles County Employees Retirement Association. They also received a handout regarding a proposed amendment to Article 16 of the California Constitution regarding establishing a hybrid pension plan for public employees hired after January 1, 2013. She noted the amendment was a proposal at this point.

She reported funding the contract with Vontobel for the emerging markets mandate (which the Board approved on August 17, 2011, and which was signed in October 2011) is still in pending. Because the contract is for a separate account, Staff has had to establish foreign brokerage accounts in each of the countries involved (a task that was previously, but no longer, provided by the custodian bank). The main cause for the delay is a result of the need for creating separate contracts with the local tax representative in four of the countries (India, Taiwan, Bangladesh, and Pakistan). She noted the funds for this mandate remain with the managers the Board recently terminated.

Ms. Bhatia reported the Cost of Living Adjustment (COLA) for retirees, effective July 1, will be presented to the Board at the next meeting. The adjustment this year is 2.7%, and depending on the amount in each retirees' COLA bank, some retirees may receive the 3% maximum permitted by the Plan.

She reported Staff continues with the testing and validating of the retiree payroll component of the new system. A release from the vendor to repair some of the issues identified by Staff is expected within the next few weeks.

15. Future Agenda Items

Items requested by the Board were:

- discussion of the salary parity for the Chief Investment Officer, deferred at this meeting
- possible discussion of concerns with Pakistan investments
- possible discussion by PCA regarding the Vontobel account

With no further business, the meeting adjourned at 11:19 a.m.



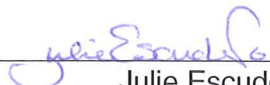
Javier Romero
Board President

3/28/12
Date



Sangeeta Bhatia
Retirement Plan Manager

3/28/12
Date



Julie Escudero
Utility Executive Secretary

3-28-12
Date