

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

**MINUTES**

**February 22, 2012**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Mario Ignacio, Chief Accounting Employee  
Ronald O. Nichols, General Manager  
Barry Poole, Regular Member  
Robert Rozanski, Retiree Member

**Board Members Absent:**

DWP Commissioner - Vacant

**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

President Romero called the meeting to order at 9:02 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:**

- a) **January 11, 2012, Regular Meeting**
- b) **January 11, 2012, Special Meeting**

**2. Termination from Rolls**

- a) **Termination of Monthly Allowance from the February 2012 Retirement Roll**
- b) **Termination of Louis Dawson from February 2012 Permanent Total Disability Roll**
- c) **Termination of Douglas Jun Kurimoto from February 2012 Permanent Total Disability Roll**

*Mr. Rozanski moved that the Board approve Items 1 and 2; seconded by Mr. Nichols.*

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

*Nays: None*

*THE MOTION CARRIED.*

**3. Report of Payment Authorizations for January 2012**

**4. Notice of Deaths for January 2012**

**5. Investment Reports for January 2012**

- a) **Summary of Investment Returns as of January 31, 2012**
- b) **Market Value of Investments by Fund and Month as of January 31, 2012**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of January 31, 2012**
- d) **Summary of Contract Expirations**

**6. Report on Status of Insurance as of February 8, 2012**

**7. Report on Organizational Changes at Prudential Real Estate Investments**

*Mr. Rozanski moved that the Board accept Items 3 through 7; seconded by Ms. Coffin.*

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

*Nays: None*

*THE MOTION CARRIED*

**8. Discussion of July 1, 2012, Annual Cost of Living Adjustment for Eligible Recipients of Monthly Retirement Plan Benefits**

Ms. Bhatia provided the background on this item to approve the 2012 annual Cost of Living Adjustment of 2.7% based on the Consumer Price Index.

*Mr. Rozanski moved that the Board approve Resolution No. 12-60 for the annual Cost of Living Adjustment for 2012 ; seconded by Mr. Ignacio.*

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

*Nays: None*

*THE MOTION CARRIED.*

**9. Selection of Passive International Developed Core Equity Manager**

The Board acknowledged Neil Rue from Pension Consulting Alliance, Inc. (PCA). Mr. Rue provided a brief summary of the interviews with BlackRock and Mellon Capital conducted at the last meeting for the Passive International Developed Core Equity Manager, and stated the Board deferred their selection pending additional information, mainly concerning governance matters. Mr. Rue reviewed PCA's findings and noted neither BlackRock nor Mellon would offer Sudan-free commingled funds. He stated the cost difference for separate versus commingled accounts was significantly higher with both firms and exceeded \$100,000. He indicated BlackRock was firm with their fee structure, but Mellon offered some flexibility; therefore, PCA recommended the Board select Mellon based on Staff successfully negotiating a lower fee for a separate account.

In response to a question regarding possible concerns with securities lending and custodian banks, specifically BNY Mellon, Mr. Rue said both managers indicated they do not conduct foreign exchange transactions through their affiliates.

Discussion ensued pertaining to the advantages of a separate versus commingled account, and also governance issues such as exposure to countries like Sudan, Iran, etc.

*Mr. Rozanski moved that the Board select Mellon Capital, subject to Staff's successful negotiation with Mellon for a lower, more acceptable fee to recommend to the Board for a separate account; seconded by Mr. Ignacio.*

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

*Nays: None*

*THE MOTION CARRIED.*

## 10. Discussion of Active International Emerging Markets Equity Manager Request for Proposal

Neil Rue from Pension Consulting Alliance, Inc. (PCA) reported ten firms responded to the Request for Proposals for the Active International Emerging Markets Equity Manager search and, of the ten, seven met the minimum qualifications. Six of the firms met the Board's preferred qualifications, and Mr. Rue stated PCA was recommending the Board interview the top five ranking firms.

*Mr. Nichols moved that the Board interview the five candidates recommended by PCA; seconded by Mr. Poole.*

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

*Nays: None*

*THE MOTION CARRIED.*

## 11. Discussion of Real Estate Investment Opportunity

The Board acknowledged Michael Humphrey and Stanley Kim of Courtland Partners, the Plan's Real Estate consultants who were in attendance to present an opportunistic investment opportunity in Blackstone Real Estate Partners (BREP) VII fund. Mr. Humphrey noted Blackstone's strategy included purchasing debt to control underlying assets, and making equity investments to restructure and recapitalize overleveraged investments. In reviewing the positive aspects of this opportunity, Mr. Humphrey stated Blackstone's track record is strong and their return performance has been over 16% as of the third quarter of 2011. He stressed their good execution and noted Courtland believes Blackstone is in a position to take advantage of the current market. On the negative side, Mr. Humphrey stated Blackstone has an 85% cap on leverage, which exceeds the Board's maximum of 75%, and the projected range for this opportunity is between 65% and 75%. He also said Courtland was not convinced of Blackstone's market sensitivity.

Mr. Nichols said, for future opportunities, it would be helpful for Courtland to provide a summary showing the status of the fund and its objective, how much capital the Plan has committed to date, the amount of capital open in an opportunity, etc. Mr. Humphreys said Courtland could provide a brief summary in the future.

The Board acknowledged Alexandra Hill, Managing Director at Blackstone. Ms. Hill reviewed Blackstone's real estate program and real estate team, as well as their philosophy. She spoke about their track record and attributed the main reason for their outperformance to their view on leverage, which for BREP VII should be close to approximately 65%. She noted they do not cross collateralize their assets, they have no fund level guarantees, they have no covenants, and they are proponents of floating rate debt.

Mr. Rozanski asked if the terms of this partnership provide the flexibility for recourse debt and cross collateralization. Ms. Hill answered they have some restrictions on their debt which are negotiated, and they recently added a cap of 85% for leverage; they have no other restrictions.

In response to a question from Mr. Nichols regarding who establishes the value of their acquisitions, Ms. Hill stated Blackstone handles everything internally and uses no third party appraisers. She stated that in addition to their internal layers, Blackstone uses two outside groups that look at their valuations.

As for BREP VII, Ms. Hill stated the fund was formed six months ago and, so far, Blackstone has put out approximately \$1.6 billion of capital across six deals. She explained the fund's structure and noted investments are made at the close of a deal.

She provided a status of their fundraising for BREP VII, and noted they have raised \$6.1 billion and will be closing another \$4 billion in the next few days.

*Mr. Rozanski moved that the Board adopt Resolution No. 12-61 to invest in BREP VII; seconded by Mr. Nichols.*

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

*THE MOTION CARRIED.*

## **12. Discussion of the Contract and Funding Status for Vontobel Asset Management Inc.**

Mr. Wolfson recounted the history of this item and reported Staff continues to experience delays with funding the contract. He stated Staff received six responses to their request for information for local tax advisors, and the City Attorney is currently reviewing all of the proposed agreement documents. When asked for the status of the City Attorney's review, Assistant City Attorney Alan Manning stated he will get to them as soon as possible. In response to Mr. Romero's concern that the review might be delayed indefinitely, Mr. Manning stated he would contact Staff immediately if he determined outside counsel review would be more expeditious.

## **13. Discussion of Securities Lending Program**

This item was deferred pending the availability of representatives from the Plan's custodian bank, BNY Mellon.

## **14. Discussion of the Change in the Date of the Evolving Policy Allocations for the Covered Calls Mandate**

Mr. Wolfson reviewed the background for this request to change the target date for the Evolving Investment Policy from October 1, 2011, to April 1, 2012.

*Mr. Rozanski moved that the Board adopt Resolution No. 12-62 to change the date of the Evolving Policy for the Covered Calls Mandate; seconded by Mr. Nichols.*

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

*THE MOTION CARRIED.*

*The Board recessed at 10:19 a.m. and reconvened at 10:26 a.m.*

## **15. Presentation by Pension Consulting Alliance – Third Quarter Private Equity Performance for Period Ending September 30, 2011**

The Board acknowledged Tad Fergusson from Pension Consulting Alliance (PCA). Mr. Fergusson began his presentation by reminding the Board the private equity performance information is generally lagged by one quarter. He reported as of the end of the third quarter of 2011, the program had nine active partnerships that had drawn down \$111 million in capital, returned \$33 million in distributions, and had a remaining market value of \$98 million, with a net since inception internal rate of return of 6.8%. The program's \$98 million market value represents approximately 1.5% of the total asset allocation which has a long term target of 5%. He noted with the unfunded commitments, the total exposure is approximately 3.3%.

He stated this last period was relatively active with \$7.4 million contributed to the program, \$4.6 million returned in distributions, with a minimal appreciation of \$366,000.

He reviewed the program's performance and noted it has outperformed the Russell 3000 plus 300 basis points benchmark over all periods, and for the most recent year, it significantly outperformed the Russell benchmark with a 17.9% rate of return compared to Russell's 3.6%.

He reviewed the holdings diversification and sector exposures, as well as the geographic diversification, industry diversification, and vintage year diversification. He also reviewed the overall fundraising activities and provided a market overview.

## **16. Update from City Attorney on Request for Proposal for Outside Tax Counsel**

Ms. Bhatia provided a recap of the February 8, 2012, meeting where the Board approved the City Attorney's request to extend their contract with Ice Miller for tax advice services. She noted that at that same meeting, the Board received the City Attorney's draft Request for Proposals (RFP) to add law firms to the existing bench of outside counsel. She stated the Board had deferred making a decision on approving the RFP pending receipt of additional information, and Assistant City Attorney Alan Manning and Deputy City Attorney Marie McTeague were present to address the Board's concerns.

In response to the Board's question of whether the RFP included a minimum fee requirement, Mr. Manning stated a minimum fee requirement is typically not in an RFP but is taken into consideration when assessing the proposals. Mr. Nichols stated he was concerned that no fee information was requested in the RFP, and Mr. Manning assured him that fees were an essential part of the process, and respondents were required to submit fee information. When several in attendance said they were unable to locate the fee request in the RFP, Mr. Manning identified the location in the RFP where the fee request was included, but because it was difficult to find, he agreed to make it more visible.

With respect to whether the RFP included a preference for local counsel, Mr. Manning stated that is something that could be taken into consideration when the responses are evaluated. Mr. Nichols suggested given that the City has adopted a provision for local bid preferences and the DWP Board of Commissioners is in the process of adopting such a provision, perhaps in the future, the Retirement Board, with guidance from the City Attorney, should discuss if it would be appropriate for this Board to do the same.

In response to Mr. Romero's question of how the RFP will be advertised, Mr. Manning said it will be advertised as an RFP not a Request for Information (RFI). He added the City Attorney's Office has compiled a large list of firms that, over the years, have requested to be notified whenever an RFP is advertised, so it will not be limited to just certain firms.

*Ms. Coffin moved that the Board approve the draft RFP with the stipulation that the fee structure be included in the RFP; seconded by Mr. Nichols.*

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

*Nays: None*

*THE MOTION CARRIED.*

**17. Discussion of Proposed Revision to the Monthly Summary of Investment Returns Report**

Mr. Wolfson reviewed the new template for the monthly summary of investment returns and said it included information that Staff and PCA believe will be the most meaningful to the Board to provide best in class reporting in transparency and data. He said the template was still a draft for the Board's input and Staff will provide both the previous and the new format for a period of time.

As a result of the review, the Board requested and Staff agreed that information be added to include the policy benchmark for comparison purposes.

**18. Retirement Plan Manager's Comments**

Ms. Bhatia reported the notifications for the Retirement Board elections of the active member representatives were sent this morning via telephone message as well as via Department email, and the notifications to employee home addresses will be mailed today.

She reported Staff received the final release of the retiree paycheck module to be implemented for the April 1 retiree paycheck that will be payable in May. She stated Staff is testing that release and is working with ITS and Health Plans staff.

She stated Assistant City Attorney Alan Manning was present to provide the Board with an update concerning the Brown Act. Mr. Manning reported several changes were made to the Brown Act, effective January 1, 2012. One change requires agendas to be posted on the web as well as physically posted; however, this did not affect the Retirement Board because the Retirement Board agendas are already posted online. He stated another change stipulated that special meetings are not allowed for the purpose of discussing executive salaries or compensation paid in the form of a fringe benefit; however, special meetings are still allowed for the purpose of discussing a budget.

**19. Future Agenda Items**

Ms. Coffin requested Staff research the feasibility of purchasing iPads for the Retirement Board Members to possibly reduce printing and delivery costs for the Board agenda packages.

Mr. Nichols requested a future item, with legal input, to discuss local bid preferences when soliciting Requests for Proposals.

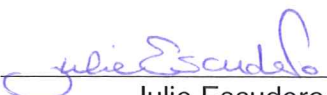
With no further business, the meeting adjourned at 11:09 a.m.

  
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Javier Romero  
Board President

4/11/12  
Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

4/11/12  
Date

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

4.11.12  
Date