

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

MINUTES

NOVEMBER 28, 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
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 9:07 a.m.

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

Public Comments

Mr. Romero introduced Pamela Gonzalez-Giachetti, who was hired effective November 19, 2012, as a Clerk Typist in the Disability Section of the Retirement Office.

Mr. Romero asked Deputy City Attorney McTeague if she knew who wrote the letter regarding the reciprocity item that was signed by the General Manager and presented to the DWP Board of Commissioners on November 6, 2012. Ms. McTeague stated she had no knowledge of that. Mr. Romero asked Mr. Nichols if he was aware of who drafted the letter, and Mr. Nichols stated he did not recall.

Consent Items

1. **Approval of Minutes – October 24, 2012, Regular Meeting**
2. **Termination from Rolls – Monthly Allowance from the November 2012 Retirement Roll**

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

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

Nays: None

THE MOTION CARRIED.

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

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

5. **Investment Reports for September 2012 and October 2012**
 - a) **Summary of Investment Returns as of September 30, 2012**
 - b) **Summary of Investment Returns as of October 31, 2012**
 - c) **Market Value of Investments by Fund and Month as of October 31, 2012**
 - d) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of October 31, 2012**
 - e) **Summary of Contract Expirations**
6. **Report on Status of Insurance as of November 13, 2012**
7. **Report on Due Diligence On-Site Visit to Prudential Real Estate Investors**
8. **Report on Organizational Changes at Wells Capital**

Mr. Rozanski moved that the Board accept Items 3 through 8; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

9. Discussion of Request to Release Actuarial Valuation Data

Ms. Bhatia reported this item was requested by Phil Leiber, the Department's Chief Financial Officer (CFO), for actuarial data retained by the Plan's actuary and is required pursuant to a request made by the Ratepayer Advocate. She stated Mr. Leiber and Ann Santilli, Assistant CFO and Controller, were present to answer any questions.

Mr. Poole stated he considered the request to be illegal, outside the scope of the Ratepayer Advocate's jurisdiction, and an intrusion into the Meet and Confer process.

Mr. Nichols explained the request was not just on behalf of the Ratepayer Advocate but based on an ordinance passed by the City Council in adopting power rates. He stated the ordinance included a number of items on which the Department is required to provide an analysis and quarterly progress reports, and the information requested by the Ratepayer Advocate is required in order to provide feedback to the Council. Mr. Leiber indicated the first quarterly report is due around December 25.

Mr. Poole reiterated his opinion that the request was clearly outside the scope of the Ratepayer Advocate's jurisdiction which, he said, was not to usurp the Meet and Confer process.

Ms. Coffin stated she had great discomfort with the request which included supposition of a Tier 2 retirement system. She said the Department does not have a Tier 2 system and questioned why the Ratepayer Advocate would request information on something that does not exist. She stated speculation of a non-existent Tier 2 system would involve the Meet and Confer process.

Mr. Romero expressed his frustration that the Board was being asked to comply with this new request yet the Board's request for a suspension of the reciprocity arrangement with the City, which would save the Department close to \$300 million, remains unresolved. He stressed the reciprocity issue was an immediate concern, both to the Retirement Plan and to the ratepayers, and until that was addressed he would not support the Ratepayer Advocate's request.

Mr. Rozanski asked Deputy City Attorney Marie McTeague if the Board would have a responsibility to provide the information requested by the CFO/Ratepayer Advocate as viewed from a California Public Records Act (CPRA) standpoint. Ms. McTeague stated the Board has a responsibility to cooperate with the Plan sponsor, the Department. She said if the information was requested through a CPRA request and the information was public, the Board would need to produce that information.

Messrs. Poole and Romero stated they disagreed with Ms. McTeague's advice, and Mr. Romero added he believed a conflict of interest existed for the City Attorney.

Mr. Poole stated he would not support the Plan paying for information based on a theoretical scenario. Ms. McTeague stated the Department, not the Plan, would have to pay for any actuarial studies needed to determine whether a Tier 2 system would be cost effective.

Mr. Nichols stated a request has been made of the Department, the Department must respond to that request, and the Department's CFO has asked for actuarial data in order to respond to that request. He said if a cost is associated with acquiring that data then it should be borne by the Department. As for the Meet and Confer concern, he stated the matter has not come to that at this point.

Mr. Rozanski commented that the Plan's actuary recently conducted an experience study, which is public information, and he believed the requestors could use that information to make their projections.

Ms. Santilli stated the Ratepayer Advocate's report criticized the Department indicating it has not gone through the same processes as the City to look at potential cost reductions, and the Ratepayer Advocate has asked for information to support the current actuarial plan. She said his report did take into account the reciprocity issue, and it noted the Department's costs have increased significantly because of the transfer of employees into the Department's retirement plan, but until the Department can make any sort of sense as to what kind of cost reductions, if any, could be considered, they need the data in a detailed level.

Messrs. Poole, Romero, and Rozanski and Ms. Coffin continued to voice their concerns with the information request, and they indicated they believe the public information already available should be sufficient, and the reciprocity issue should be addressed first.

As it appeared the situation reached an impasse, Mr. Nichols requested a more thorough explanation of what data is required and why the existing information that is currently available on the Plan's website is not satisfactory. He also asked that a more refined request be presented that provides a clearer basis for an action by the Retirement Board.

10. Discussion of Investment with Brookfield Timberlands

Mr. Wolfson explained this item presented an opportunity for the Board to invest up to \$25 million (up to \$20 million from the Retirement Fund and up to \$5 million from the Retiree Health Benefits Fund) in Brookfield Timberlands Fund V, L.P. (Brookfield V) as part of the Plan's timber allocation within the Real Return asset class.

Michael Humphrey, Bill Foster, and Stanley Kim from Courtland Partners (the Plan's real estate investment consultant) provided background information on the firm and described the investment opportunity in Brookfield V. Mr. Foster explained Brookfield V is a global investment opportunity with an inflation adjusted strategy and a \$750 million funding target.

During their review of the advantages and risks surrounding this investment opportunity, Courtland representatives pointed out a potential concern stemming from an allegation of misconduct against one of Brookfield's property management firms in Brazil. Courtland representatives stated the issue in Brazil involves a division of Brookfield that is separate from the timber team and the Brookfield V opportunity and, thus, would not affect this investment opportunity. To alleviate possible concerns from the Board, Mr. Humphrey suggested if the Board opted to invest in Brookfield V, then the investment could be subject to the satisfactory legal review of the issue in Brazil.

Chris Harris from Brookfield Asset Management and Reid Carter from Brookfield Timberlands Management provided a more detailed review of the Brookfield V opportunity which included an overview of the company, Brookfield's investment committee, the acquisition process, and an overview of the market.

In response to Mr. Nichols' questions focusing on the environment, Mr. Carter stated all of Brookfield's timber is grown on plantations, as opposed to natural forests, and the timber has a wide range of age classes and harvest cycles. He stressed their practice includes a complete environmental review.

Mr. Romero asked for the worst case scenario regarding the legal issue in Brazil, and Mr. Carter stated the issue in Brazil involves retail and is unrelated to the timber operation. He said the only impact might be on the firm's reputation, and if any senior executives were involved, they would be dismissed through a transparent process. Mr. Harris agreed the Brazil issue would have no effect on the timber fund.

Mr. Rozanski asked if Brookfield insured their timber against fire, pest infestation, etc. Mr. Carter replied they do not and no one effectively does. He indicated an insurance option may become available; however, the major concerns and losses in the United States over the past 17 years have been minimal and mostly salvageable. He described the methods typically used to manage product risk. He added that the larger risk involves government restrictions; however, Brookfield is very engaged within the regulatory environments to effectively manage their interests, as well as possible, and they underwrite those risks wherever they can.

With regard to capital, Mr. Carter stated Brookfield V is denominated in United States dollars with no hedge against currency risk. With regard to leverage, he stated the fund is limited to 30% at the asset level with an expected loan to value rate in the conservative range of 23% to 25%.

Ms. Coffin moved the Board approve Resolution No. 13-35 to invest in Brookfield V; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

The meeting recessed at 10:47 a.m. and reconvened at 10:54 a.m.

11. Discussion of Investment with Mesa West Real Estate

Mr. Wolfson stated the Plan is currently invested in Mesa West Real Estate Income Fund II, and this item was to consider an opportunity for the Plan to invest in a new fund with Mesa West, specifically the Mesa West Real Estate Income Fund III, L.P., (Mesa West III) with a recommended commitment of up to \$20 million from the Retirement Fund and up to \$5 million from the Retiree Health Benefits Fund.

Michael Humphrey, Bill Foster, and Stanley Kim from Courtland Partners provided background information on the firm and described the new investment opportunity. Mr. Humphrey reviewed the Mesa West III investment strategy and explained it aims for a strong income return and principal protection. Mr. Foster added this investment is entirely floating rate debt with no risk of locking in long term fixed interest rates. He stated most of the notes will have a two-year to five-year time span with a degree of leverage to enhance the return.

In response to Ms. Bhatia's comment that the size of the General Partner investment seems small, Mr. Humphrey explained that most of the money comes from the main principals of the firm. Mr. Foster added the three main principals currently own 50% of the firm and are increasing their ownership stake to 75% with one outside investor.

Mr. Nichols commented on the 1.35% fee on committed capital for Mesa West III, and he asked if it was the same for Mesa II. Mr. Foster stated the manager changes fees on committed capital because they need funds to meet expenses between now and the time they invest the capital. He noted the fee was previously 1.5%, and Courtland negotiated the fee down to 1.35%.

Mark Zytko from Mesa West Capital provided a more detailed review of the Mesa West III opportunity which included an overview of the firm. He reviewed the success of Funds I and II; and for Mesa West III, specifically, he described the opportunity and stated the fund target is a 12% net internal rate of return. He reviewed the investment parameters, reviewed the risk and reward, and described a sample loan.

Mr. Rozanski moved the Board approve Resolution No. 13-36 to invest in Mesa West III, L.P.; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

12. Discussion of Private Equity Investment Opportunity

Mr. Wolfson stated this item was to consider a private equity investment of up to \$25 million from the Retirement Fund and up to \$5 million from the Retiree Health Benefits Fund in EnCap Investments Fund IX, L.P. (EnCap IX), an investment strategy in the oil and gas industry.

Mr. Nichols left the meeting at 11:24 a.m.

Tad Fergusson from Pension Consulting Alliance (PCA), the Plan's general investment consultant, described the fund opportunity and explained the firm employs a growth-oriented investment strategy with an emphasis on low risk drilling opportunities. He explained their strategy has consistently provided strong results, and PCA believes EnCap IX is an attractive opportunity.

Charles Bauer and Murphy Markham of EnCap Investments provided a more in-depth review which included an overview of the firm and more details of EnCap IX. Mr. Bauer explained EnCap IX is a \$4.25 billion fund with a \$5 billion hard cap to be concluded at year's end. Mr. Markham reviewed their investment strategy, performance history, and track record. He stressed their consistent returns throughout their various funds and their consistent client base.

Mr. Bauer closed by saying they are thrilled with the early performance of Fund VIII and they expect Fund IX will be the same.

Mr. Rozanski moved the Board approve Resolution No. 13-37 to invest in EnCap IX; seconded by Ms. Coffin.

Ayes: Coffin, Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

13. Discussion of the Plan's Draft Annual Audit Report and Related Financial Statements, as of June 30, 2012, Presented to the Audit Committee

Ms. Carranceja reported the Plan's auditors from Simpson & Simpson presented the draft audit report and financial statements to the Audit Committee at its meeting held just prior to this Retirement Board meeting.

She reported the auditors issued an unqualified opinion and revealed no material weaknesses. She stated the auditors did point out an issue within the PenFax data refinement process; however, they noted, per the Plan's actuary, the data refinement issues have no material impact on the financial statements.

14. Presentation by Pension Consulting Alliance-Second Quarter 2012 Private Equity Performance

Tad Fergusson with Pension Consulting Alliance (PCA) reported the program's net since-inception internal rate of return remains unchanged at 7.1%. He reported the program has approximately \$255 million in capital committed across 11 partnerships and, of that, 57% has been drawn down for a remaining market value of \$125.3 million (approximately 1.7% of the total market value as of mid-year). He noted the unfunded commitments increase that to 3.2% toward the current target of 4%, with progress toward the 5% long term allocation

He reviewed the performance for the one-year, three-year, five-year, and since-inception periods. He reported the program has underperformed the policy benchmark across all periods; however, it has outperformed the public equity markets. He stated the program is progressing and is expected to achieve its goals over the long term.

He pointed out PCA added a new diversification chart to their report that shows exposure by firm across multiple partnerships with the net asset value of each investment and the unfunded exposure by firm.

In response to a question from Mr. Romero, he reported the program's market value plus unfunded commitments is approximately \$236 million, with \$125 million of reported value.

15. Presentation by Pension Consulting Alliance – Third Quarter 2012 Plan Performance

Neil Rue from Pension Consulting Alliance (PCA) reported the portfolio was up 4.9% for an 8.2% return for the past few years.

He reviewed the asset allocation and noted the actual allocation is close to the target.

He noted the changes from last year include the reduction of the fixed income assets from 35% of the total portfolio now to 27%, the covered calls program is now in place and fully funded, and the private equity and real estate programs have grown materially.

He reviewed the attribution tables and explained the portfolio outperformed largely due to the active managers. He explained the reason the portfolio underperformed compared to the policy was due to the performance of the former international equity managers but that is now being addressed as a result of the portfolio restructuring. He also noted the equity managers slightly underperformed due to their conservative strategy, and he pointed out the portfolio's cash weighting was slightly reduced.

He noted all of the asset classes or programs outperformed for the quarter, and the majority of the programs outperformed for the one-year period.

He added this was the first full quarter of covered calls investments; the program started off well and is performing favorably as was expected.

He also reviewed the performance of the managers on watch.

16. CLOSED SESSION – CONFERENCE WITH LEGAL COUNSEL RE: INITIATION OF LITIGATION – GOVERNMENT CODE SECTION 54956.9(c)

The Board met in closed session at 11:58 a.m. and reconvened in open session at 12:08 a.m.

17. Retirement Plan Manager's Comments

Ms. Bhatia reported Retirement Office staff completed the functionality testing of the 1099s and will be using the new system to produce the 1099s for this year.

She reported the Riordan ballot measure was withdrawn.

Ms. Bhatia also updated the Board on the California Public Records Act request for retiree information. She stated the information was provided to the *Los Angeles Times* (Times) several weeks ago, and the Times has now asked for the information in a different format so they can manipulate the information. Staff is working with the City Attorney to determine what they can provide.

She stated the next Retirement Board meeting is scheduled for December 12 and, pending quorum, will probably be the last meeting for the year.

18. Future Agenda Items

None requested at this time.

There being no further business, the meeting adjourned at 12:10 p.m.



Javier Romero
Board President

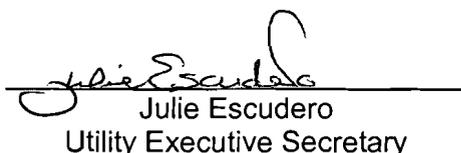
11/9/13

Date



Sangeeta Bhatia
Retirement Plan Manager

Date



Julie Escudero
Utility Executive Secretary

11.9.13

Date