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

MINUTES

DECEMBER 12, 2012

Board Members Present:
Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

Board Members Absent:
Mario Ignacio, Chief Accounting Employee
Ronald O. Nichols, General Manager
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 9:01 a.m.

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

Public Comments
Ms. Escudero stated no public comments were received.

1. Report on Proposed 2013 Manager Presentation Schedule

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

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

THE MOTION CARRIED.

2. Presentations by The Segal Company – Annual Actuarial Valuations

a) Disability Fund as of July 1, 2012

John Monroe from The Segal Company, the Plan's actuarial firm, presented a summary of Segal's review of the Disability Fund which includes Temporary Disability Benefits, Extended Temporary Disability Benefits, and Permanent Total Disability Benefits.

Mr. Monroe noted that in the funding method used for the Disability Fund and the Death Benefit Fund, generally reserves are accumulated to cover costs associated with events that have already occurred, and minimal or no reserves are accumulated to cover future events.

He reported the assets associated with the disability benefits totaled $47.6 million; member contributions amounted to approximately $450,000; Department contributions amounted to approximately $13 million; and benefits paid were approximately $17 million.

Mr. Monroe reported that Segal is recommending the Department contribution rate for the Temporary Disability Benefit Fund be increased from $1.43 per $100 of covered payroll to $1.52 to return the reserve fund to its target level by 2019.

For the Permanent Total Disability Benefit Fund, Mr. Monroe stated Segal continues to recommend the Department suspend its contributions since the general reserve of approximately $28 million greatly exceeds the $2 million target.

Regarding Segal's suggestion that the Board may want to authorize a review of the assumptions, funding methods, and reserve policies, Mr. Rozanski asked when the review was last conducted. Mr. Monroe said he believed the investment earnings assumption was reviewed during the previous decade for this fund, and he was unaware of a review of the methods and so on in the last decade.

Ms. Bhatia stated the one assumption that was revised approximately five or six years ago was the interest rate assumption from 8% to 5.5% for both the Disability Fund as well as the Death Benefit Fund.

Mr. Rozanski asked about the impact of using a level funding approach. Mr. Monroe responded that a level cost approach would probably necessitate higher contributions initially but decreased contributions over the long term as a result of investment earnings.

Mr. Rozanski asked if Segal recommended the review, and Mr. Monroe said yes, to some extent.

Ms. Higgins noted a similar recommendation in the Death Benefit valuation, and last year following a full discussion, the Board determined the funds were being adequately funded so no study was necessary at that time.

> *Mr. Rozanski moved that the Board approve Resolution No. 13-38 to accept the Actuarial Valuation of the Disability Fund; seconded by Ms. Coffin.*
>
> *Ayes: Coffin, Poole Romero, Rozanski*
> *Nays: None*
> *Absent: Ignacio, Nichols*
>
> *THE MOTION CARRIED.*

b) Death Benefit Fund as of July 1, 2012

John Monroe from The Segal Company reviewed the four components of this fund: Family Death Benefits, Supplemental Family Death Benefits, Insured Lives Death Benefits for Contributing Members, and Post Retirement Death Benefits. He noted the Supplemental Family Death Benefits are paid for solely by participant member contributions of approximately $2.25 biweekly for active members and $4.90 monthly for retirees.

He stated that due to the current Death Benefit Fund general reserve of approximately $1.7 million (with the target being $800,000), Segal recommended the Department contribution for the Family Death Benefit continue to be suspended; however, he stated the contribution may need to resume in a year or two. If that happened, he indicated the recommended Department contribution would be approximately $500,000 a year.

For the Insured Lives for Contributing Members, he noted the reserve is approximately $2.6 million (with a $1.9 million target), so Segal recommended the current contribution rate of $0.25 per $100 of payroll be maintained. He noted for the Insured Lives for Non-Contributing Members, the reserve is $6.6 million (with a $5 million target) so Segal recommended the Department contribution be decreased from $1.44 to $1.35 per $100 of retirement benefits.

Mr. Rozanski moved that the Board approve Resolution No. 13-39 to accept the annual actuarial valuation of the Death Benefit Fund; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

c) GASB Statement as of July 1, 2012

John Monroe reminded the Board that the Governmental Accounting Standards Board (GASB) statement is an accounting requirement for the employer's (Department's) financial statement. He reported Segal calculated a normal cost of approximately $1.6 million, with assets of approximately $10 million, liabilities of approximately $96 million, and an unfunded liability of approximately $85 million. He noted the unfunded liability, amortized over a 15 year period, would be approximately $10 million; and with normal costs and interest, the annual required contribution (ARC) would be approximately $12 million. He pointed out the ARC is a GASB accounting number and is neither a requirement nor a contribution rate. He noted the net pension obligation that will be reported on the employer's financial statements as a liability is approximately $31 million.

He explained the new GASB rules that will involve the Plan will be effective July 1, 2013; the rules for the employer will be effective July 1, 2014. Under these rules, the entire unfunded liability of $85 million must be included on the employer's balance sheet as a liability.

Mr. Rozanski moved that the Board approve Resolution No. 13-40 to accept the GASB actuarial valuation of the Death Benefit Fund for Non-Contributing Members; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

3. Discussion of Consent to Amendment for Angelo Gordon Core Plus Realty III

Mr. Wolfson provided the background for this request from Angelo Gordon Core Plus III, LLC, to update the limited partnership agreement (LPA) with regard to how the advisory board is managed and how the credit facility is paid. He noted that Angelo Gordon originally indicated the limited partners had already approved the Consent to Amendment; however, they no longer have the full necessary consents so the Board's action will go toward that approval.

Ms. Coffin asked if the short notice the corporation provided Staff to approve the consent could occur again in the future. Mr. Wolfson stated these types of consents might occur in the future because of the nature of the investments, and Staff has voiced their concerns regarding the amount of time provided to respond.

Mr. Rozanski moved that the Board approve Resolution No. 13-41 to approve the consent to the LPA with Angelo Gordon Core Plus Realty III; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

4. Discussion of Consent to Amendment for Ares Corporate Opportunities Fund IV

Mr. Wolfson provided the background for this request to revise the limited partnership agreement (LPA) for the Ares Corporate Opportunities Fund IV with regard to changes to the corporation's voting process and tax distribution process.

> *Mr. Rozanski moved that the Board approve Resolution No. 13-42 to approve the consent to the LPA for the Ares Corporate Opportunities Fund IV; seconded by Ms. Coffin.*
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> *Ayes: Coffin, Poole Romero, Rozanski*
> *Nays: None*
> *Absent: Ignacio, Nichols*
>
> *THE MOTION CARRIED.*

5. Annual Presentation by Aetos Capital, LLC - Absolute Return Manager

Andrea Bollyky and Anne Casscells of Aetos Capital, LP, presented the annual performance review for the Retirement Fund and Retiree Health Benefits Fund portfolios.

Ms. Bollyky provided an overview of the firm and reviewed the portfolios' allocations, exposure, and performance. She reported the year-to-date return for the Retirement Portfolio was 6.22% through the end of October, and 6.72% through the end of November versus the benchmark of 2.60% and 2.87%, respectively.

Ms. Casscells reported on the environment and how it affected the markets and opportunities for hedge funds.

Mr. Romero asked if public allocations to hedge funds are being reduced. Ms. Casscells responded that allocations are not being reduced but their focus is being shifted. Ms. Bollyky added they have seen assets from hedge funds being moved into strategies that are more liquid but still hedged.

6. Annual Presentation by Gateway Investment Advisers, LLC - Covered Calls Manager

Paul Stewart and Mike Buckius of Gateway Investment Advisers, LLC, presented the annual performance review for the Retirement Fund and Retiree Health Benefits Fund.

Mr. Stewart gave an overview of the firm and reviewed the process for the BXM Index Replication mandate and the Active Index Covered Call mandate which they manage for the Plan's two funds.

Mr. Buckius reported on the performance results and stated the benchmark for both programs was up 5.3%, and the replication accounts outperformed the benchmark by approximately 50 basis points. He noted the active program outperformed the benchmark for both plans by approximately 1%. He reported the replication accounts were up approximately 5.8% in the six month period, and the active accounts were up approximately 6.3%. He noted the replication mandate was 80% allocated and the active mandate was 20% allocated. He also reported the two funds consolidated were up approximately 5.9% or 60 basis points above the benchmark after fees and expenses.

He reviewed the risk statistics and portfolio characteristics for both funds, and the consolidated value of all the mandates for both accounts. He reported the return for the first six months was slightly over $27 million ($23.5 million for the Retirement Fund and $3.6 million for the Health Fund). He concluded with a brief market outlook.

7. Annual Presentation by Western Asset Management Company - Global Inflation Linked Securities Manager

Joe Carieri and Paul Wynn of Western Asset Management Company (WAMCO) presented the annual performance review for the Retirement Fund and Retiree Health Benefits Fund.

Mr. Carieri provided an overview of the firm and explained WAMCO currently manages two global Treasury Inflation Protected Securities portfolios for the Plan.

Mr. Wynn reported on the markets, performance, and portfolio positions. He noted the performance earlier in the period had struggled but some of the strategies have started to work. He provided a market review which covered yield duration and yield curve. He noted his concern for the low interest rates and stated WAMCO has been much more conservative with their approach. He concluded his presentation by indicating WAMCO is optimistic that the market recovery is underway and that the asset class will do well.

8. Presentation by Pension Consulting Alliance - Third Quarter Real Return Performance Review

David Sancewich from Pension Consulting Alliance (PCA) presented the quarterly review for the Retirement Fund and the Retiree Health Fund portfolios. He noted the portfolio originally included hedge funds only but is now evolving with the hedge fund portfolio changing, commodities being added, and timber having been included. He reported the portfolio trailed the benchmark by 40 basis points since inception but has rallied from its previous underperformance of 100 basis points. He noted the returns have been good for the year-to-date, one-year, and three-year periods. He noted the returns were up 6.4% annualized for the last one-year period, up 5.8% for the last three years, and outperformed the benchmark by 260 basis points for that time frame.

He reported WAMCO has added value on an absolute basis but has struggled against its benchmark. He noted PCA is monitoring WAMCO and will provide an update as the probation criteria take effect. He reviewed the hedge fund-of-fund portfolio and noted it had struggled in the since-inception period but has had good year-to-date, one-year, and three-year performances.

He noted the hedge fund portfolio is currently out to bid to search for new managers, and PCA will create a more customized account for the Plan and will recommend finalists for the new managers early next year.

He reviewed the risk/returns and noted the portfolio has achieved high returns on a risk-adjusted basis, and the standard deviation was much less than the benchmark with positive returns of close to 4%.

He reviewed the asset class allocation and noted the allocations will change next year as the new managers are added.

9. 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

This item was for reference only and no discussion took place.

10. Retirement Plan Manager's Comments

Ms. Bhatia reported the Retirement Plan Office is in the process of filling vacancies for two Principal Clerk Utility positions, and two Management Analyst positions (where two employees have been out on disability for over one year). She added the Investment Section will soon be interviewing for two vacant positions due to retirements.

She reported Staff will begin work on the web functionality specifications for the new system in the first quarter of next year. She reported the Emerging Manager Program educational presentation requested by Mr. Poole will be scheduled possibly for early February. She also noted the candidates for the Commodities Manager will be scheduled at a special meeting possibly in January.

She reported the Retirement Board will not be meeting on December 26 because no quorum is available, and the next meeting will be held on January 9, 2013, depending on quorum.

Ms. Coffin asked when the reciprocity item will be brought back to the DWP Commission. Ms. Bhatia reported it was reintroduced to the Commission in November and is intended to be scheduled for action at a follow up meeting; however, Staff has not yet received word on when that will take place.

Mr. Romero wished everyone a Merry Christmas and Happy New Year and thanked everyone for all that was accomplished this year.

11. Future Agenda Items

None requested at this time.

There being no further business, the meeting adjourned at 10:25 a.m.

Javier Romero Board President	1/9/13 Date	for Sangeeta Bhatia Retirement Plan Manager	1/9/13 Date
Julie Escudero Utility Executive Secretary	1.9.13 Date		