

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

MINUTES

September 3, 2008

Board Members Present:

Javier Romero, President
Cindy Coffin, Board Member
Eugene K. Canzano, Board Member
Michael Moore, Retiree Member
Forescee Hogan-Rowles, Commissioner

Board Members Absent:

H. David Nahai, General Manager
Ron Vazquez, Chief Financial Office

Others Present:

Sangeeta Bhatia, Retirement Plan Manager
Mary Higgins, Assistant Retirement Plan Manager
Ramonette Carranceja, Assistant Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Executive Secretary
Michael Wilkinson, Deputy City Attorney
Neil Rue, Pension Consulting Alliance
Sarah Bernstein, Pension Consulting Alliance

President Romero called the meeting to order at 9:32 a.m.

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

PUBLIC COMMENTS

President Romero introduced and welcomed two new employees of the Retirement Office both of whom started on September 2, 2008, as Senior Clerk Typists in the Administrative Section. Ms. Erlinda Pabon joined the Retirement office from the Department of Recreation and Parks, and Ms. Katrina Vazquez from the Mayor's Office.

1. Approval of Minutes

- a) **Governance Committee – September 19, 2007**
- b) **Audit Committee - September 19, 2007**
- c) **Audit Committee – February 6, 2008**
- d) **Audit Committee – April 30, 2008**

Mr. Moore moved Item 1 be approved as submitted. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano and Moore

Nays: None

2. Presentation by ING Investment Management – Annual Core Fixed Income Portfolio Review as of June 30, 2008

President Romero recognized Thomas Neukranz and Jim B. Kauffmann from ING. Mr. Neukranz indicated that the company had a strong 2007 performance globally compared to some of their competitors and that ING was adding employees and increasing assets. Mr. Kauffmann commented on the current state of the economy and its impact on DWP's retirement portfolio, and he also explained the company's plan for the future.

Mr. Romero pointed out that the WPERP One-Year Performance Attribution (relative to Lehman Aggregates) as of July 31, 2008, did not indicate what the portfolio would look like for the month ending June 30, 2008. Mr. Kauffmann responded by referencing the presentation pages, which showed the Portfolio Holdings for quarter ending June 30, 2008. Mr. Moore asked if the ING investment holdings that performed poorly were still in ING's books to which Mr. Kauffmann responded yes because those companies could still prove to be valuable. Mr. Romero asked who made the investment decisions and how were they made, to which Mr. Kauffman responded that investment decisions were made by experienced teams who screened and sorted securities from the cheapest to the most expensive then identified individual bonds that would provide the best return with the least risk. Mr. Romero commented that ING underperformed its benchmark for 2007 and 2008, and he inquired about the expectation for 2009. Mr. Neukranz responded that he was optimistic for 2009.

3. Presentation by Wells Capital Management – Annual Core Fixed Income Portfolio Review as of June 30, 2008

President Romero acknowledged Sandy Willin, Lynne Royer, and Thomas O'Connor. Ms. Willin reviewed Wells Capital Management's (WCM) experience noting they manage four portfolios for DWP. She stated the market value of the retirement plan is now valued over a \$1.1 billion dollars and they have added \$198.7 million dollars to the plan as of June 30, 2008. Ms. Willin also mentioned they were not recommending any changes to the Plan. Ms. Lynne Royer emphasized the company's investment philosophy and the risks taken, and she noted they underperformed their benchmark in the first and fourth quarter of 2007. Mr. O'Connor explained that the underperformance was a result of the current mortgage market crisis.

Mr. Moore requested further information regarding performance attribution and the breakdown based on types of securities invested. He also requested that the Board receive more information on what type of security was bought and sold. Ms. Willin indicated that Ms. Bhatia and Mr. Wolfson both received a full commentary about the performance of each security on a monthly basis.

4. Presentation by Courtland Partners - Real Estate Structural Review

Ms. Bhatia explained this presentation was to discuss potential changes in the current real estate structure. She noted that a resolution was ready if the Board chose to accept the changes and another would be introduced if the Board did not accept the changes presented.

President Romero recognized Lourdes Canlas, Jacinta de Rivera, and Marc A. Rivitz from Courtland Partners. Ms. Canlas recommended that the Board change some of its holdings from Core to Non-Core and recommended the Board not reduce its CORE position, but invest in Value-Add in the future to take advantage of this market. Mr. Romero asked about the process if the Board accepted the suggested strategy. Ms. Canlas explained that they would review the different firms offering the Value-Add and Opportunistic strategies.

5. Presentation by Courtland Partners - Green Real Estate Investing

~~Mark~~ **Marc** A. Rivitz, Courtland's Senior Analyst based in Cleveland, gave the presentation with emphasis on the viability of investing in "green" buildings. He noted the advantages as well as the risks involved. Mr. Canzano inquired whether Courtland was aware of LEED certification status of other companies. According to Mr. Rivitz, LEED was now the standard, and Ms. Canlas added that LEED was now the base-certification with different advantages like saving money. Mr. Moore inquired if Courtland had verified if LEED buildings have a higher operating costs and Mr. Rivitz explained that it is ~~different~~ **difficult** to compare the cost and income between LEED certified and non-LEED certified buildings. Mr. Romero asked if now was the time that DWP should start investing in "green" and if there is money in it. Ms. Canlas responded that Courtland has already recommended with other companies to invest in "green" funds.

Ms. Forescee Hogan-Rowles arrived at the meeting at 11:15 a.m.

She raised a concern regarding the possibility of having to start investing in Green funds locally. Ms. Canlas responded that she had already recommended a locally based Green fund to LACERS. Mr. Wolfson inquired why Courtland made a recommendation to LACERS and not to DWP wherein Ms. de Rivera responded she was just commenting during the evaluation of "green" funds and was now recommending the Board consider it.

Ms. Bhatia suggested revisiting the Plan's investment policy pertaining to Green investing if necessary. Mr. Moore inquired if Courtland would recommend the funds even if they did not have a "green" mandate, wherein Ms. Canlas responded yes.

Ms. Hogan-Rowles suggested this issue be an agenda item for the next Governance or Regular Retirement Board meeting.

6. TIPS Education Seminar - Pension Consulting Alliance, Inc.

President Romero acknowledged Neil Rue from Pension Consulting Alliance (PCA). Mr. Rue presented a discussion of inflation-linked fixed income bonds and reminded the Board of its approval of a new strategic allocation to a new asset class called Real return. He described the background of inflation-linked bonds and mentioned that different types of assets would be considered. He indicated that the Plan would be conducting a search for an inflation-linked bond portfolio manager. Ms. Hogan-Rowles inquired about the criteria for conducting the search and if they were looking for a manager based in Los Angeles and/or in California to ensure that enough proposals were received from minority-owned firms. According to Mr. Rue, only a few managers were based in Los Angeles, and those specifics were not laid out in the policy and there was no requirement that Los Angeles based managers must be considered. Ms. Hogan-Rowles acknowledged that she was informed this item had already been discussed earlier this morning, however, she suggested an additional agenda item be added to the next Governance Committee meeting. Mr. Moore agreed with her request for the October 1, 2008, Governance Committee meeting.

In response to questions by Mr. Canzano and Ms. Coffin, Mr. Rue responded that the United States used the CPI Urban Index, which was adjusted and reported quarterly. Ms. Hogan-Rowles requested Mr. Rue's opinion about the future of inflation-linked bonds and if this was something we might regret in the future. Mr. Rue explained that since the government issues TIPS, they are solid.

Mr. Rue explained global inflation-linked fixed income was now a well-established fixed income segment and provided reasonable inflation protection. He also recommended that Staff execute a global inflation-linked fixed income search between \$75 million and \$80 million for an inflation protective manager. He also added that PCA would work with Staff to structure the Request for Proposals and to ensure that it was the appropriate mandate.

- 7. Summary Investment Returns as of July 31, 2008**
 - a) Market Value of Investment by Fund and Month as of July 31, 2008**
 - b) Market Value of the Retirement, Death and Disability Funds and Retiree Health Care Fund as of July 31, 2008**
 - c) Investment Returns as of July 31, 2008**

Item 7 was included for reference only.

8. Retirement Plan Manager's Comments

Ms. Bhatia reported that Jeremy Wolfson had accepted the promotion to Chief Investment Officer effective September 1, 2008. Ms. Bhatia informed the Board that the Plan Amendment expanding the death benefit provision to cover accidents on the job was scheduled for approval by the Board of Commissioners at their meeting scheduled for September 5, 2008, and soon thereafter would go through the City Council approval

process. She mentioned that work on the new system was ongoing and some problems had been identified, which Staff was now correcting. She noted that the work was on schedule. Ms. Bhatia further added that the draft of the management audit had been received, and the deadline to respond was September 12, 2008. She noted there was no quorum for the September 17, 2008, Board meeting; therefore the next meeting would be held on October 1, 2008.


9. Future Agenda Items

Ms. Hogan-Rowles mentioned that she was invited to participate in a retirement board trustees meeting composed of people from different municipalities who were trustees from different funds. She was asked if it was possible to have others attend their future meetings and suggested this issue be placed as an agenda item for the next meeting.

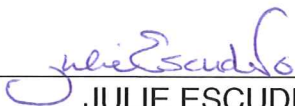
The Board meeting was adjourned at 12:34 p.m.



JAVIER ROMERO
President



SANGEETA BHATIA
Retirement Plan Manager



JULIE ESCUDERO
Executive Secretary