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

MINUTES

MAY 6, 2009

Board Members Present:
Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
H. David Nahai, General Manager
Forescee Hogan-Rowles, Commissioner
Jeff Peltola, Chief Financial Officer

Board Members Absent:
None

Staff Present:
Sangeeta Bhatia, Retirement Plan Manager
Mary Higgins, Asst. Retirement Plan Mgr.
Monette Carranceja, Asst. Retirement Plan Mgr.
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:
Michael Wilkinson, Deputy City Attorney
Neil Rue, Pension Consulting Alliance, Inc.

President Romero called the meeting to order at 10:03 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. John Hill, DWP Utility Accountant, expressed his gratitude towards former Board Member Eugene Canzano for his efforts and contribution to the Retirement system during his tenure.

1. Approval of Minutes for the Regular Meeting of April 1, 2009

Mr. Moore moved for approval of the April 1, 2009, Regular Meeting Minutes as submitted; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Nahai, and Peltola
Nays: None

2. Report on Personnel Changes
   a) Fred Alger Management, Inc.
   b) HRJ Capital

3. Update on PCA

4. Complimentary Invitation: Emerging Managers Summit 2009 in Chicago, IL

Mr. Romero noted he requested Item 4 be placed on the agenda in case any of the other Board Members might be interested in attending. He noted the conference would cover investing in emerging managers as well as new strategies for implementing an emerging managers program.

Ms. Coffin moved Items 2 through 4 be received and filed; seconded by Mr. Peltola and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Nahai, and Peltola
Nays: None

5. Nominations and Appointments of Officers of the Board of Water and Power Employees' Retirement Plan

a) Nominations and Election of President and Vice-President

Mr. Romero called for nominations of the Officers for the Retirement Board.

Ms. Coffin nominated Mr. Romero as Board President; seconded by Mr. Poole and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Nahai, and Peltola
Nays: None

Mr. Romero nominated Ms. Coffin as Board Vice-President; seconded by Mr. Poole and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Nahai, and Peltola
Nays: None

b) Appointment of Chair and Members of Audit Committee

Mr. Romero appointed Mr. Poole as Chair of the Audit Committee and Mr. Peltola and Mr. Moore as Committee Members.

c) Appointment of Chair and Members of Benefits Committee

Mr. Romero appointed Ms. Coffin as Chair of the Benefits and Mr. Poole and Mr. Romero as Committee Members.

d) Appointment of Chair and Members of Governance Committee

Mr. Romero indicated he would like to make the Governance Committee a Committee-of-the Whole. He noted most Audit recommendations were also Governance issues and the Board would meet at a future date to separate Governance items for distribution to the various committees. Mr. Poole was appointed as Chair of this Committee.

6. Presentation by Fred Alger Large Cap Growth – Annual Performance Review as of March 31, 2009

Mr. Romero acknowledged Peter Latara, Senior Vice-President, and Dan Chung, Chief Executive Officer, of Fred Alger Management, Inc.

Mr. Latara provided an update on the firm's investment team working with the Plan's portfolio. Mr. Chung provided an overview of the firm and reviewed their management style and investing process. He reported the firm's investment strategy and process continued to concentrate on maximizing return and minimizing risk through a vigilant portfolio monitoring. He indicated that since inception in 2004, the portfolio has outperformed the benchmark by 200 basis points gross-of-fees and approximately 180 basis points net-of-fees. He also noted 2008 was a difficult year and the portfolio underperformed the benchmark by negative 8.54 percent; although the firm was doing well despite the market volatility.

He discussed the top ten portfolio holdings and stated they anticipate a positive market through 2010, with improved job markets, financial systems, and credit risks.

7. Presentation by INTECH Large Cap Growth – Annual Performance Review as of March 31, 2009

Mr. Romero acknowledged Russell Bjorkman, Vice-President Portfolio Management Group, and Dr. Jason Greene, Vice-President and Senior Investment Officer, from INTECH.

Mr. Bjorkman provided an executive summary and reviewed the firm's non-traditional approach which is based on a mathematical risk/return process with a strategy to capture volatility and generate excess returns.

Dr. Green reviewed their performance analysis and process and noted they based their target weights on volatility and correlation characteristics of stocks. He emphasized the sources and contributing factors of volatility characteristics and added the company had done a better job of diversifying stock volatility compared to the benchmark. Dr. Greene reviewed the trending cycles and noted the portfolio underperformed the benchmark by -0.51% gross of fees for the quarter and attributed the underperformance to negative trending.

Mr. Moore expressed his concern regarding the performance numbers during the past five years and the fact that INTECH's performance had not improved despite being on watch status since February 2007. Mr. Bjorkman responded their misses had not been that far off and added they experienced similar periods of underperformance in the past and had bounced back.

Mr. Peltola asked how they saw trending rebound, and Dr. Green referred to their ability to correctly estimate volatility and stock correlation and indicated they have historically seen the trend reverse. He stated they have been able to keep periods of underperformance at such levels that reaching the benchmark was possible.

(Ms. Hogan-Rowles joined the meeting @ 10:57 a.m.)

Both Mr. Nahai and Ms. Coffin voiced their concerns that INTECH's mathematical process did not appear to be working for the Plan. Dr. Greene responded by referring to one client who remained patient for seven years before their negative returns reversed and another client who withdrew their investments after a few years before they could have recovered.

Mr. Romero asked PCA to comment, and Mr. Rue stated INTECH was hired as an active manager and noted that although the firm's performance had been disappointing, INTECH's returns compared roughly to the performance of an index fund. He explained that INTECH's underperformance was only 27 basis points while other active managers had underperformed by 500 basis points.

Mr. Rue addressed Mr. Nahai's concern with waiting six months while INTECH remained on watch, and he explained the rating period was halfway over and he advised the Board not to make a rash decision at this time.

Following considerable discussion regarding whether the Board should wait six months before making a decision, it was agreed that this item would be reviewed again in two months.

8. Presentation by BlackRock Large Cap Passive – Annual Performance Review as of March 31, 2009

Mr. Romero acknowledged Anthony Freitas, Managing Director and Account Manager, and Debbie Jelilian, Managing Director and Portfolio Manager, from BlackRock.

Mr. Freitas presented an overview of the company and noted at the end of March 2009, they were managing $1.3 trillion of assets globally across a range of products. He stated that 49.5 percent of BlackRock was now owned by Bank of America as a result of Bank of America's acquisition of Merrill Lynch; however, they were still an independent firm.

Ms. Jelilian provided an update of the firm's investment process, discussed the Plan's portfolio performance over the past twelve months and presented their outlook of the portfolio's future performance. She added the portfolio was managed by a team, and they managed $1 billion of the Plan's fund. Regarding the Plan's investment objective, she stated BlackRock has replicated a portfolio to match the risk and return characteristics of the Russell 1000 Index and the portfolio characteristics were in line with the Index.

9. Presentation by Courtland Partners – Real Estate Portfolio for the Quarter Ending December 31, 2008

Mr. Romero thanked Courtland Partners for inviting him to participate in a meeting at the White House regarding green investing.

Mr. Romero acknowledged Lourdes Canlas and Jacinta de Rivera from Courtland Partners.

Ms. Canlas reported the Plan's real estate portfolio was valued at over $110 million as of December 31, 2008, which represented approximately 2.0 percent of the Plan's total assets of $6.1 billion as of the same period. She added the Plan has approximately $46 million in committed capital that has not been called, namely for Mesa West, CB Richard Ellis (CBRE), and PRISA II. She pointed out if all uncalled capital was added to the existing portfolio, the Plan would be within the range of 2.5 percent to 2.6 percent of the total portfolio which represented approximately 50 percent of the target allocation.

Ms. Canlas reviewed the risk return profile which consists of 88 percent core and 12 percent value add, and stated their goal is a core plus portfolio with 70 percent core, 20 percent value, and 10 percent opportunistic.

(Mr. Nahai left the meeting at 11:40 a.m.)

Ms. Canlas reported the returns as of December 31, 2008, were negative 11 percent gross and negative 12 percent net compared to the benchmark. She stated the underperformance of the National Council of Real Estate Investment Fiduciaries (NCREIF) Index was partly because the investment managers wrote down property values more aggressively than the NCREIF benchmark.

Ms. de Rivera reviewed the specific funds (CB Richard Ellis {CBRE}, JP Morgan, PRISA I, and PRISA II) and noted the core and value leverage percentages were within the Plan's policy limits, with leverage for PRISA I and II being higher.

Mr. Moore asked about the redemption queue for PRISA and JP Morgan. Ms. de Rivera responded these funds were designed to freely invest and withdraw; however, restrictions were in place based on the cash needs of the funds. She continued to state that PRISA was working through its debt and would sell buildings to raise capital, but it was not selling ahead of schedule.

Mr. Peltola asked why CBRE appeared different from the other funds. Ms. de Rivera responded that this was a newer investment and they were using leverage to acquire properties.

(The Board recessed at 11:54 a.m. and reconvened at 12:11 p.m. with Messrs. Nahai and Peltola absent.)

Public Comments (Out of Order)

Mr. Romero reopened Public Comments and welcomed newly elected Board Member Barry Poole. Mr. Poole represents the Power System. Mr. Romero and Ms. Coffin were reelected as active Board Members and represent the Water and Joint Systems, respectively.

10. Presentation by Pension Consulting Alliance, Inc. – Hedge Fund of Funds Report as of March 31, 2009

Mr. David Sancewich, from Pension Consulting Alliance (PCA), indicated this was a newly created quarterly report on hedge funds and was presented to the Board for discussion and format approval. He pointed out the format was the same as that used in the general quarterly report.

He reviewed the report and noted the preliminary numbers showed an aggregate portfolio value of $60.2 million as of March 31, 2009, and noted the long term returns underperformed during the later half of 2008.

(Mr. Peltola reentered the meeting at 12:16 p.m.)

Mr. Sancewich reviewed the risk returns since inception and stated PCA selected the HFRI Conservative Index as the median fund because it includes strategies similar to those of Aetos and PAAMCO. He reviewed the performance charts and explained the Growth of $100 on the chart and noted the hedge fund-of-funds performance was closely on target until they began to drop in September 2008 and continued to decline through the end of the year.

In response to a request from Mr. Moore, Mr. Sancewich agreed to modify the report to include a commentary of each manager and a turnover list with details regarding additions and deletions.

(The Board recessed at 12:25 p.m. and reconvened at 12:59 p.m.)

3. Update on PCA (Out of Order)

Mr. Romero reopened this item for commentary by Mike Moy of PCA.

Mr. Moy addressed the *Los Angeles Times* article which referred to an informal inquiry of two members of the Los Angeles Fire and Police Pension Board as part of an ongoing investigation into alleged improprieties involving New York State pension fund officials. Mr. Moy explained that PCA was mentioned in the article merely because they are a consultant for the Los Angeles Fire and Police Pension Board. Mr. Romero asked about PCA's involvement with the hiring of the Fire and Police investment managers, and Mr. Moy responded that PCA conducted a search for consultants but did not recommend who was appointed.

Mr. Wolfson asked Mr. Moy if PCA was involved with the hiring of Aldus by the Los Angeles Fire and Police Pension System. Mr. Moy responded that PCA was involved in the conduct of a search for a consultant, and the conclusion of that search resulted in the appointment of Aldus for whatever its role was at LA Fire and Police. He stated that PCA did not recommend them, and that PCA conducted the search with staff, and the appointment of Aldus was done without recommendation from PCA.

In response to a question from Mr. Moore, Mr. Moy explained the role of placement agencies.

11. Discussion of Investment in Lexington Fund VII

Tad Fergusson, of PCA, provided a brief overview of the Lexington Fund VII, LP Fund. He stated Lexington is well positioned in the secondary private equity market. He introduced Nick Harris of Lexington Partners who outlined the firm's goals and objectives.

Mr. Harris also reviewed the firm's strengths, General Partner relationships, monitoring process secondary market review and projections, deal pipeline, liquidity and cash flow to Limited Partners, and performance.

Ms. Hogan-Rowles asked for an explanation as to why it was recommended we move forward with this strategy with additional commitment during the current market environment. Mr. Harris responded that private equity asset classes are long-term investments that are more favorable and more attractive and can generate up to 500 basis points more return than public equities. He added that Lexington was leading in the secondary market and invested in existing assets which were priced appropriately and provided less risk. He further added the more distressed the assets are, the more attractive they are due to their lower price.

Mr. Peltola asked about the length of time to hold assets, and Mr. Harris responded that it was ten to thirteen years.

Ms. Bhatia asked about the risks in primary fund-of-funds, and Mr. Harris stated they were not involved with them because they tended to underperform in the future. He noted the main risks were fund sponsors who previously performed well but were now in the lower quartile.

Ms. Bhatia also asked about the relationship between Landmark and Lexington. Mr. Fergusson explained that Landmark and Lexington came from the same firm but are now two independent firms with similar strategies but different underlying exposures.

Ms. Bhatia expressed concerns regarding the General Partner aggregate commitments through cash contributions and management fee offsets, and Mr. Harris explained it was more tax efficient that way.

Mr. Moore moved for approval of Resolution No. 09-95 to commit up to $30 million from the Retirement Plan and up to $5 million from the Retiree Health Benefits Fund to Lexington Capital Partners VII, LP Fund; seconded by Ms. Hogan-Rowles and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Hogan-Rowles, and Peltola
Nays: None

12. Discussion of Loomis Sayles High Yield Investment Performance

Mr. Moore moved for approval of Resolution No. 09-96 to place Loomis Sayles High Yield Investment Manager on watch status; seconded by Mr. Peltola and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Hogan-Rowles, and Peltola
Nays: None

13. Discussion of T. Rowe Price Emerging Market Investment Performance

Mr. Moore moved for approval of Resolution No. 09-97 to place T. Rowe Price Emerging Markets manager on watch status; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Hogan-Rowles, and Peltola
Nays: None

14. Discussion of Ratification of Funding for Contract with Ice Miller, LLP, to Provide Tax Counsel to the Board

Mr. Moore moved for approval of Resolution No. 09-98 to approve funding for the contract with Ice Miller, LLP; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Hogan-Rowles, and Peltola
Nays: None

15. Discussion of Insurance Requirements for Simpson & Simpson

This item was deferred to the next meeting.

16. Consideration of Request from the City Attorney to Attend the National Association of Public Pension Attorneys (NAPPA) Legal Education Conference

Ms. Hogan-Rowles moved to approve the request from the City Attorney to attend NAPPA Legal Education Conference; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Hogan-Rowles, and Peltola
Nays: None

The Board met in closed session at 1:52 p.m. to consider the following item:

17. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(b), to confer with legal counsel regarding a matter in which, based on existing facts and circumstances, there is a significant exposure to litigation against the Board, and pursuant to Government Code Section 54956.9(c), to confer with counsel in considering whether to initiate litigation in that matter.

(Mr. Peltola left the closed session at 2:07 p.m.)

The meeting met back in open session at 2:17 p.m. with no action taken.

18. REPORTS FOR REFERENCE

a) **Summary of Investment Returns as of March 31, 2009**
b) **Market Value of Investments by Fund and Month as of March 31, 2009**
c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of March 31, 2009**

This item was included for reference only with no discussion.

19. Retirement Board Newsletter – April 2009

This item was included for reference only with no discussion.

20. Retirement Plan Manager's Comments

Ms. Bhatia reported that staff attended meetings of the Fire and Police Pension System and Los Angeles City Employees Retirement System (LACERS) to hear Paul Angelo from The Segal Company discuss different smoothing scenarios. She stated Mr. Angelo, in his presentation, indicated five-year smoothing with no corridor was considered to be reasonable under Generally Accepted Actuarial Standards.

Ms. Bhatia also reported the first phase of the new system should be up by the end of the month and parallel testing would be run for at least six pay periods and may be extended to three months depending on the results.

She further reported that the CLA's office requested staff provide information on the travel expenses for Board members and staff for the past five years. She noted this was the same information requested by the Controller's office; however, the Controller's office only requested information for the past two years.

Ms. Bhatia noted that lack of sufficient office space still remains an issue. Ms. Hogan-Rowles responded she was told the issue was moving along, and she indicated she would follow up.

21. Future Agenda Items

Mr. Poole asked that parking spaces for Retirement Board Members be discussed. Ms. Bhatia said that parking has been an issue at the Department level, and Ms. Hogan-Rowles suggested looking into the possibility of Retirement Board Members using the spaces assigned to the DWP Commissioners since both boards meet on different days.

The Board meeting adjourned at 2:23 p.m.

Javier Romero	6/3/09	Sangeeta Bhatia	
JAVIER ROMERO President	Date	SANGEETA BHATIA Retirement Plan Manager	Date

Julie Escudero	6.3.09
JULIE ESCUDERO Utility Executive Secretary	Date