

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

MINUTES

September 23, 2009

Board Members Present:

Javier Romero, President
Barry Poole, Board Member
Michael Moore, Retiree Member
Jeff Peltola, Chief Financial Officer

Board Members Absent:

H. David Nahai, General Manager
Cindy Coffin, Vice President
Appointed DWP Commissioner - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Mary Higgins, Asst. Retirement Plan Mgr.
Monette Carranceja, Asst. Retirement Plan Mgr.
Scott Vargas, Senior Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Michael Wilkinson, Deputy City Attorney
Neil Rue, Pension Consulting Alliance, Inc.
Tad Fergusson, Pension Consulting Alliance, Inc.

President Romero called the meeting to order at 10:05 a.m. following the Pledge of Allegiance.

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

Public Comments

No public comments were received.

- 1. Recommendation for Approval of Minutes:
August 12, 2009, Special Meeting/Governance Committee Meeting
August 19, 2009, Regular Meeting**
- 2. Termination from Monthly Rolls
Termination from September 2009 Retirement Roll
Termination of Matthew Weathington from September 2009 Permanent Total
Disability Roll**
- 3. Revocation of Katrina Alcantar as Trustee for Casaundra J. Alcantar and Appointment
of Marcela Blakely**

Mr. Romero called for discussion of Consent Items 1 through 3.

Ms. Bhatia noted some typographical errors were found in the Minutes for the August 19, 2009, meeting, and the Board was provided with corrected copies at the start of the meeting.

Mr. Moore commented he believed the third sentence on page 1.6, Item 19, of the August 19, 2009, Minutes, should be changed to read, "*Ms. Bhatia stated that would involve a ~~specific~~ **meet and confer** process, but she could provide the Plan provisions as they exist for discussion.*" He also requested that the first sentence in the second to the last paragraph on page 1.7, Item 10, of the August 19, 2009, Minutes, be changed to read, "*Mr. Moore expressed his appreciation for the report and asked Mr. Klausner about the decision making ability of fiduciaries in a ~~politically motivated~~ **political** environment that might have some negative effect to the interest of the members being served.*"

Mr. Moore moved for approval of Consent Items 1 through 3 with the noted changes; seconded by Mr. Poole, and carried unanimously after the following vote:

Ayes: Romero, Poole, Moore, and Peltola

Nays: None

4. **Report of Payment Authorizations for August 2009**
5. **Notice of Deaths for August 2009**
6.
 - a) **Summary of Investment Returns as of August 31, 2009**
 - b) **Market Value of Investments by Fund and Month as of August 31, 2009**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of August 31, 2009**
6. **Report on Status of Insurance as of August 31, 2009**
7. **Report on Status of Insurance as of August 31, 2009**

Mr. Romero called for discussion and/or a Motion for approval of Received and Filed Items 4 through 7.

Mr. Moore moved for approval of Items 4 through 7 as received and filed; seconded by Mr. Poole, and carried unanimously after the following vote:

Ayes: Romero, Poole, Moore, and Peltola

Nays: None

8. Annual presentation for ING Core Fixed Income Mandate as of July 31, 2009

Mr. Romero recognized Thomas Neukranz, Christine Hurtsellers, and Robert Kase of ING Investment Management.

Mr. Neukranz, Senior Vice President, provided a brief introduction of Ms. Hurtsellers, Chief Investment Officer; and Mr. Kase, Vice President and Client Portfolio Manager.

Ms. Hurtsellers proceeded to review the recent changes ING has instituted. She reported the senior investment team is intact with good morale and a low turnover rate. She noted ING added a "head of credit" to oversee high yield investment grade credit and to provide more solid succession planning. She also noted they combined the team that was part of the investment management of ING's proprietary portfolio (insurance company) with their mortgage team, which has strengthened their resolve and improved their rates of return.

Ms. Hurtsellers then reviewed ING's investment process and strategy. She reiterated Mr. Neukranz' mention of the newly created client portfolio manager position with Robert Kase as the Plan's portfolio manager. She also remarked on the transfer of the oversight for the risk management function from her position as Chief Investment Officer (CIO) to the Head of Risk for Investment Management. In response to Mr. Moore's question regarding the effect of the Risk Manager no longer reporting to the CIO, Ms. Hurtsellers explained the change would ensure the transparency of their investment procedures and decisions and would provide better checks and balances.

Ms. Hurtsellers provided an overview of the market and touched on interest rates, macro views, and sector strategy.

Mr. Peltola requested additional information on Mortgage-Backed Securities (MBS) in the commercial market. Ms. Hurtsellers explained ING's exposure to MBS was minimal, and ING kept the risk in non-agency mortgages.

Mr. Peltola asked how the portfolio performance compared to the benchmark. Mr. Kase explained the one-year figures underperformed in the later half of 2008, but the changes made at the beginning of the year were now showing improvement, and the portfolio outperformed the benchmark by 250 basis points for the three-month period.

With respect to the key macro themes for the second half of 2009, Mr. Moore commented that some of the points appeared to be contradictory, and he asked Ms. Hurtsellers to elaborate on ING's thinking with respect to de-leveraging. Ms. Hurtsellers explained ING believed that the quickness of the United States Treasury and Federal Reserve intervention into the economy would not result in a depression cycle like that experienced in Japan. She indicated ING remains cautious regarding the latter part of 2010 but they are not expecting the economy to go back to where it was. She added that the de-leveraging cycle they were referring to was more U.S. consumer-based and corporate America-based, and she believed the U.S. economy would continue to struggle to be at capacity, and consumer de-leveraging would continue and would affect overall economic growth. She added the de-leveraging is good for corporate bonds and not good for equities.

9. Presentation by Pension Consulting Alliance, Inc. – Private Equity Performance Review as of March 31, 2009.

Mr. Romero acknowledge Tad Fergusson and Neil Rue from Pension Consulting Alliance (PCA).

Mr. Fergusson provided a performance overview of the Private Equity Program and reported as of March 31, 2009, the Plan had invested \$146 million in committed capital across six partnerships, had drawn down \$70.8 million, had distributed \$11 million back to the Plan, and had a remaining value of \$48.8 million. He stated the Program had generated a since-inception Internal Rate of Return (IRR) of minus 16% at the end of the first quarter. He also reported the market value of \$49 million at the end of the first quarter represented approximately 1% of the total Retirement Fund portfolio and, with the unfunded commitments of \$146 million, resulted in a total exposure of approximately 2.4% of the Retirement Fund.

Mr. Fergusson noted the Program is making strides towards its longer term target asset allocation and is highly diversified in terms of partnerships, with 95% of the market value exposed to fund-of-funds (71% secondary and 24% primary) and 5% to direct partnerships. He stated the Program has exposure to more than 300 individual private equity partnerships with holdings in more than 3,000 to 4,000 individual portfolio companies.

Regarding sector diversification, Mr. Fergusson stated 53% of the portfolio was exposed to buy-outs, 29% to special situations (distressed debts and special opportunities), and 18% to venture capital. He also added the vintage year diversification of the portfolio increased from the 1990s to 2000s.

Mr. Fergusson provided an overview of the private equity market and highlighted the commitments made in various time periods. He noted the commitments peaked in 2007 then declined in 2008 and continued to decline in 2009 due to lack of available debts, decline in valuation, and purchase

price multiplier. He emphasized; however, that the portfolio remained highly diversified and well positioned for the long term.

Mr. Moore asked to what extent PCA, with input from the various private equity firms, can project how well an investment will perform and when it would be beneficial to withdraw a commitment. Mr. Fergusson explained that PCA formulates forward looking predictions using industry averages and historical perspectives of past activities and, to some extent, the current market environment, but so much is driven by the change in the market value that it presents a challenge. He noted; however, they can try to incorporate matrixes with more forward looking comments on funding levels and areas of concern. He said they could also include a partnership's current standing versus its original projection and more commentary on how they are progressing toward the long term goals.

In response to a question from Mr. Peltola regarding strategy, Mr. Fergusson explained private equity is a higher-returning asset class over the long term with diversification benefits; however, the higher returns are characterized by higher risk. In response to Mr. Peltola's follow-up question regarding the risk involved, Mr. Fergusson explained a limit is imposed on how much capital can be invested in that class.

Mr. Rue added the intent of private equity is to outperform public equity and not for portfolio diversification purposes. He added that the private equity performance since inception was down by 16% whereas public equity was down by 31%.

10. Recommendation to Approve the Annual Transfer of Funds from the General Reserve Account to the Reserve for Investment Gains and Losses Account

Ms. Carranceja stated Plan Section III C (8) stipulates that all capital gains and losses shall be credited or charged to the surplus account of the Retirement Fund at the end of every fiscal year to close the account. She explained this year the Reserve for Investment Gains and Losses Account suffered a loss of \$541 million; thus, the actual balance for the account was negative \$529 million. She added the Plan has always maintained a year-end balance of approximately \$5 million in the Investment Reserve Account and, to maintain that amount, a transfer of \$535 million from the General Reserve Account to the Investment Reserve Account was necessary.

Mr. Romero asked when a transfer of this type had last been made, and Ms. Bhatia responded a similar transaction was made in 2001. She added this was considered a routine entry which required Board action.

Mr. Moore moved for approval of Resolution No. 10-26, authorizing the annual transfer of funds from the General Reserve Account to the Reserved for Investment Gains and Losses Account; seconded by Mr. Peltola, and carried unanimously after the following vote:

*Ayes: Romero, Poole, Moore, and Peltola
Nays: None*

11. Update on Governance Issues

Mr. Peltola reported he had not yet received any feedback from the Department's City Attorney's Office regarding this, but he believed they had reached a solution regarding the request for three additional positions in the Retirement budget without adding to the Department's overall budget. He stated more information should be available by the next meeting.

Mr. Wilkinson reported he attended a meeting with Pete Echeverria, the head of the City Attorney's Office Civil Branch, and he provided Mr. Echeverria with a copy of the Klausner report. He stated he also provided him with an update on the budget issue and a copy of the Board Resolution in question.

12. Discussion of Information on Cost of Reciprocity Program with LACERS

Mr. Romero indicated he requested this item to discuss the increase in the number of employees transferring into the Department and the increased cost of reciprocity. He stated that in the past, the number of employees who transferred between the City and the Department was fairly equal but, over time, more employees now transfer into the Department than out. He said he would like to know if there is a way to even out the cost without involving a meet and confer process.

Ms. Higgins stated a Plan amendment or change to the Administrative Code in 1993 had eliminated the "wash" and she indicated a Plan amendment would be necessary to add it back.

Discussion ensued regarding whether a meet and confer process would be necessary in addition to the need for an actuarial study. Ms. Bhatia stated staff would research this issue and report back to the Board regarding how best to proceed.

13. Retirement Plan Manager's Comments

Ms. Bhatia reported the investment transition was completed by the transition team of Russell Investments. She stated Russell will monitor the portfolio in the interim using a passive index account pending the selection of the new investment firms. She added Staff is in the process of scheduling interviews for October 7 to select the new managers for the Active Core Fixed Income mandate and the Global Inflation-Linked Securities mandate. She noted a separate meeting would be scheduled to interview investment managers for the Small Cap Growth mandate.

Ms. Bhatia also indicated the November schedule of Board meetings needed to be revisited because of the holidays for Veterans' Day and Thanksgiving. Mr. Romero suggested having only one meeting in November if possible.

Mr. Peltola asked Neil Rue to clarify if the gain indicated on the Summary of Investment Returns as of August 31, 2009, represented half of what the Plan lost from the past fiscal year. Mr. Rue concurred but added the report represented only the first two months of the current fiscal year.

Ms. Bhatia reported Staff was using the new system and working on the Annual Member Statements which were scheduled to go out by the end of September or the beginning of October. She stated Staff would be sending out this year's 1099s using the old system and expected to use the new system for next year's 1099s. She added that reports and specifications relative to the automated payroll, which is the second module, will be implemented later this year.

In response to a concern from Mr. Moore regarding previous issues with the 1099s, Ms. Bhatia expressed confidence the statements would be released timely. Ms. Higgins provided additional information in support of Ms. Bhatia's statement.

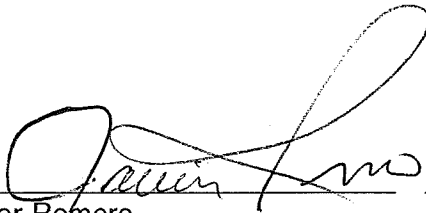
Ms. Bhatia stated Staff was continuing to work on data clean-up issues with respect to the new recently implemented module, while also utilizing the new module.

Ms. Bhatia acknowledged the work of Julie Escudero and Erlinda Pabon for the timely completion and distribution of the Retirement Board meeting minutes. She stated the Retirement Office has remained on schedule with the timeline of one month for the completion of the minutes to be presented to the Board for approval.

14. Future Agenda Items

No future agenda items were requested.

The meeting adjourned at 11:37 a.m.



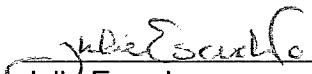
Javier Romero
Board President

11/4/09
Date



Sangeeta Bhatia
Retirement Plan Manager

11/4/09
Date



Julie Escudero
Utility Executive Secretary

11.4.09
Date