

SPECIAL

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

MINUTES

JUNE 26, 2013

Board Members Present:

Javier Romero, President
Mario Ignacio, Chief Accounting Employee
Robert Rozanski, Retiree Member
Barry Poole, Regular Member

Board Members Absent:

Ronald O. Nichols, General Manager
DWP Commissioner – Vacant
Vice President - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan
Manager
Mary Higgins, Asst. Retirement Plan
Manager
Monette Carranceja, Asst. Retirement Plan
Manager
Jeremy Wolfson, Chief Investment Officer
Mary E. Alvarez, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 8:44 a.m.

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

Public Comments

Ms. Alvarez reported no public comments.

1. Termination from Rolls – Monthly Allowance from the June 2013 Retirement Roll

Mr. Rozanski moved that the Board approve Item 1; seconded by Mr. Poole.

Ayes: Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

2. Report of Payment Authorizations for May 2013

3. **Notice of Deaths for May 2013**
4. **Investment Reports for May 2013**
 - a) **Summary of Investment Returns as of May 31, 2013**
 - b) **Market Value of Investments by Fund and Month as of May 31, 2013**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of May 31, 2013**
 - d) **Summary of Contract Expirations**
5. **Report on Status of Insurance as of June 11, 2013**
6. **Report on Organizational Change at Bank of New York Mellon**

Mr. Rozanski moved that the Board approve Items 2 through 6; seconded by Mr. Poole.

Ayes: Ignacio, Poole, Romero, Rozanski

Nays: None

Absent: Nichols

THE MOTION CARRIED.

7. Discussion of Experience Study for the Period July 1, 2009, through June 30, 2012, as Prepared and Presented by the Segal Company

Ms. Higgins introduced the item regarding the Experience Study (Study) for the period July 1, 2009, through June 30, 2012, as prepared and further presented by The Segal Company. She advised that the Study reviews the economic and non-economic assumptions used to complete the annual evaluations. She also advised that after review and consideration by the Board, staff would prepare and present a resolution for final Board adoption of the Study and any changes in assumptions.

Mr. Paul Angelo, Senior Vice President and Actuary, and Mr. John Monroe, Vice President and Associate Actuary, representatives of The Segal Company, presented the Study, recommending various changes (summarized on the following page) in the current actuarial assumptions based on the results of the study and the expected near-term experience.

Actuarial Assumption Recommendations
Experience Study
Period Covered July 1, 2009 – June 30, 2012

ASSUMPTION	CURRENT	RECOMMENDATION
ECONOMIC		
Inflation	3.5%	3.25% per Section III A
Investment Return	7.75%	7.50% per Section III B
Salary Increase		Per Section III C
• Inflation	See above	See above
• Across the Board	0.75%	No Change
• Promotions/Merit	See page 20	Adjust
DEMOGRAPHIC		
Retirement Rates including age differences between spouses	See pages 22 & 23	Adjust per Section IV A
Mortality Rates	RP-2000 Combined Healthy Mortality Table (separate tables for males and females) w/ ages set back 2 years for males and 1 year for females	RP-2000 Combined Healthy Mortality Table (separate tables for males and females) w/ ages set back 1 year, projected to 2030 with Scale AA per Section IV B
Termination Rates	Based on age as shown on (page 34)	Based on YOS per Sect. IV C (page 35)
Ordinary Withdraw/Vested Termination		Per Section IV D
• Less than one year service	45%/55%	100%/0%
• More than one year service	45%/55%	15%/85%
Disability Incidence Rates	See page 39	No change per Section IV D
Future Service Accrual	1.15 yr/active	No change per Section IV E
MEMBER CONTRIBUTIONS		
	See page 43	Change per Section V

Detailed discussion ensued especially in regards to the assumptions for inflation, investment return, and mortality. Mr. Angelo also indicated recent changes in actuarial standard have increased the actuary's responsibility to reflect future mortality improvements in the retired population. Segal is monitoring how systems may better

meet this standard including the adoption of “generational mortality” which establishes a separate mortality assumption for each year of birth. As requested by the Board, this issue will be reviewed again in the next experience study.

Mr. Rozanski moved that the Board approve the reduction of the investment rate of return from 7.75% to 7.50% as recommended by Staff and The Segal Group; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

Mr. Rozanski moved that the Board approve to change the mortality tables as recommended by Staff and The Segal Group; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

Mr. Rozanski moved that the Board adopt all the other changes in the report, as recommended by Staff and The Segal Group; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

Ms. Higgins advised that Staff would return to the Board at their next meeting with a resolution that would codify the votes.

8. Discussion of Investment Opportunity with Real Return Asset Class

Mr. Wolfson introduced this item regarding an investment opportunity in Hancock Timberland XII, LP (“Hancock XII”), a timberland fund. He summarized the history of the previous timberland investment opportunity, Brookfield Timberlands Fund V, LP (“Brookfield V”), which did not proceed due to firm issues, and that Hancock XII would be a replacement for Brookfield V. Mr. Wolfson noted that this investment would be consistent with the Board’s real return investment policy.

Mr. William Foster and Mr. Daniel Butler, representatives from Courtland Partners, Ltd., provided an overview of the previous timberland opportunity, Brookfield V, and the

current investment opportunity, Hancock XII. Mr. Butler addressed the fund's terms, investment strategy, the advantages, risks, and concerns. In response to Ms. Bhatia's question, Mr. Butler mentioned that the Plan's investment is contingent upon Hancock Timber Resource Group ("HTRG") raising \$200 million from other investors. In response to Mr. Rozanski's query about HTRG's capabilities in investing in Brazil, Mr. Butler mentioned that HTRG has formed long-term relationships with Brazilian partners and have invested in Brazil in their previous timberland funds.

Mr. Tim Cayen, Director, Business Development, and Mr. John Perda, Senior Portfolio Manager, HTRG, provided a comprehensive review of this opportunity, which included an overview of the firm and details of the Hancock XII opportunity. Mr. Cayen spoke about the firm's team, their performance, and the long-term investing horizon of the fund. He also described their investment strategy and philosophy. Mr. Cayen also addressed Mr. Rozanski's query on the fund's allocation to Brazil by explaining that Brazil investments may take up 25% allocation of the fund. Ms. Bhatia asked Mr. Cayen about the number of fund redemptions to which Mr. Cayen responded there were five fund exits out of twelve, to date. Mr. Perda added that they are winding down Fund VI and an international fund, to date. Lastly, Mr. Cayen confirmed Ms. Bhatia's query that organizational expenses will not exceed \$250 thousand.

Mr. Rozanski moved that the Board adopt Resolution No. 13-88 to invest in Hancock Timberland XII, L.P., under the Real Return asset class; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

9. Discussion of Real Return Asset Class Policy Benchmark

Mr. Wolfson introduced and discussed the item to recommend the Board amend the Real Return Policy Benchmark, effective July 1, 2013, from Treasury-Bills + 3% to Consumer Price Index + 3%, in accordance with recommendations from Pension Consulting Alliance, Inc.

Mr. Rozanski moved that the Board approve Resolution No. 13-90 to amend Real Return asset class Policy Benchmark; seconded by Mr. Poole.

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

THE MOTION CARRIED.

10. Discussion of Fixed Income Structure and Policy Change

Mr. Wolfson provided a review of the Fixed Income Structural changes the Board approved during the previous meeting. Mr. Wolfson summarized the restructure of the Fixed-income portfolio from a core plus structure, to a portfolio with both a “Safety” and Global Credit component. The “Safety” component will be similar to the core portfolios but will have a shorter duration and have no credit component. The Global Credit component will include a Multiverse Credit Benchmark that includes Global Corporate Debt and Global High Yield. Additionally, there will be a dedicated Bank Loan mandate. Benchmarks will change from the current Barclays Capital Aggregate Index and Barclays High Yield Index to the Barclays Capital US Intermediate Aggregate ex Credit for the “Safety” component and the Barclays Capital Multiverse Credit – Hedged, and Barclays Capital Global High Yield Index-hedged.

Neil Rue from Pension Consulting Alliance (PCA) presented the recommendation to utilize a multi-manager request for proposal (RFP) process to identify the best investment managers for the Global Credit mandates. PCA will determine through the RFP process whether to maintain a dedicated high yield manager or combine the high yield mandate with the global Multiverse credit. PCA also recommended maintaining the current core fixed income managers, JP Morgan and Wells Capital, to manage the “Safety” component upon further evaluation.

In response to Mr. Ignacio’s inquiry, Mr. Rue advised that the duration of the overall portfolio will be dropping with the larger portion of that coming from the Safety portion. Mr. Rue also advised that the changes are to the benchmark only and the allocation to a subset of the fixed income Core index will be reduced from 90% to 50%. Additionally, the Global Multiverse benchmark ranges from investment grade to high yield. In response to Mr. Ignacio, Mr. Wolfson advised that the implementation timeline would be approximately 12 to 18 months.

Mr. Rozanski moved that the Board adopt Resolution No. 13-91 to restructure the Plan’s Fixed Income asset class and amend the fixed income policy, and Resolution No. 13-92 to start the RFP process for the Global Credit component of the fixed income portfolio and implement the “Safety” component with the existing fixed income core managers; seconded by Mr. Ignacio.

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

THE MOTION CARRIED.

11. Discussion of Preliminary Strategic Investment Plan by Pension Consulting Alliance, Inc.

Mr. Rue outlined the 2013-2014 Preliminary Strategic Investment Agenda of tasks PCA will complete over the upcoming twelve months.

12. Retirement Plan Manager's Comments (Out of Order)

Ms. Bhatia reported on the following items:

- The Retirement Board member election results were expected to be certified by the City Clerk on July 18, 2013. The results were expected to be presented to the DWP Board of Commissioners on August 6, 2013.
- The next meeting was scheduled for July 10, 2013, and a quorum had been confirmed. Four Hedge Fund Interviews were scheduled for said meeting.

The Board recessed the meeting at 10:50 a.m. and returned to resume the meeting at 10:58 a.m.

13. Presentations of Proposals and Interviews for Hedge Fund Manager (Out of Order)

Mr. Wolfson stated the purpose of the proposals and interviews of five candidates was for the Active Convergent Hedge Fund Manager. Mr. Wolfson also advised that in September 2012, the Board approved a RFP schedule for an Active Convergent manager in order to implement the structural change within the WPERP Real Return portfolio.

Mr. David Sancewich from PCA provided the background on the Active Convergent Hedge Fund Manager search process.

The Board then interviewed the following candidates:

- a) Aetos Alternatives Management, LLC
- b) Blackstone Alternative Asset Management LP
- c) Crestline Investors, Inc.
- d) Entrust Capital, Inc.
- e) Morgan Stanley Alternative Investment Partners

Upon conclusion of the interviews, discussion ensued amongst the Board members, PCA, and Staff regarding the interviews and the individual Board Member's choices.

Mr. Rozanski moved that the Board select Morgan Stanley Alternative Investment Partners as the new Active Convergent Hedge Fund Manager, subject to negotiation of an acceptable fee; and that Staff negotiate the fees and contract; seconded by Mr. Ignacio.

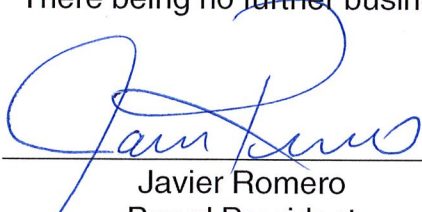
Ayes: Ignacio, Poole, Romero, Rozanski
Nays: None
Absent: Nichols

THE MOTION CARRIED.

14. Future Agenda Items

No future agenda items were requested.

There being no further business, the meeting adjourned at 12:59 p.m.



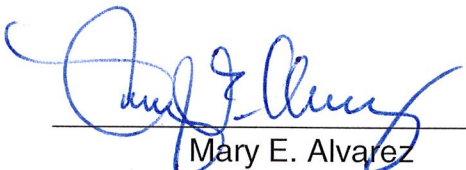
Javier Romero
Board President

8/16/13
Date



Sangeeta Bhatia
Retirement Plan Manager

8/16/13
Date



Mary E. Alvarez
Utility Executive Secretary

8/15/13
Date