

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

**MINUTES**

**MARCH 10, 2010**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member  
Jeff Peltola, Chief Financial Officer  
S. David Freeman, Interim General Manager

**Board Members Absent:**

Appointed DWP Commissioner - Vacant

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Jeremy Wolfson, Chief Investment Officer  
Monette Carranceja, Asst. Retirement Plan Manager  
Julie Escudero, Utility Executive Secretary

**Others Present:**

Neil Rue, Pension Consulting Alliance.  
David Sancewich, Pension Consulting Alliance  
Kay Ceserani, Pension Consulting Alliance  
Pete Echeverria, Chief Asst. City Attorney  
Alan Manning, Asst. City Attorney  
Michael Wilkinson, Deputy City Attorney

President Romero called the meeting to order at 10:04 a.m. following the Pledge of Allegiance.

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

**Public Comments**

Mr. Romero introduced Yolanda Mendo, the new Principal Clerk Utility in the Retirement Section.

**1. Request for Approval of Minutes**

- a) **January 27, 2010 Regular Meeting**
- b) **February 10, 2010, Regular Meeting**

**2. Request for Approval to Attend Training**

*Ms. Coffin moved for approval of Consent Items 1 and 2; seconded by Mr. Moore and carried after the following vote:*

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

**3. Presentation by Pension Consulting Alliance, Inc. – Fourth Quarter Hedge Fund of Funds Performance Report as of December 31, 2009**

David Sancewich reported the current value of the hedge fund of funds portfolio was \$68.9 million net of fees, up 1.4% since inception. He also reported the portfolio outperformed both the benchmark and the median fund.

He reviewed the risk/return analysis since inception, the growth of \$100, the monthly returns versus the policy benchmark net of fees, the 12-month rolling beta, and the allocation breakdown of the total portfolio. He also reviewed the individual performances for Aetos and PAAMCO.

*(Mr. Peltola joined the meeting at 10:12 a.m.)*

Mr. Moore asked for clarification of the term "trans" used in the manager allocation and turnover information for PAAMCO. Mr. Sancewich explained PAAMCO often opened more than one portfolio with the same manager; and when they had an opportunity to add value, they transferred assets within the portfolios. He stated the future reports will more clearly describe where the assets were transferred.

Mr. Sancewich also reviewed the Supplemental Performance/Risk Statistics report which included the same information PCA provides Staff monthly.

#### **4. Presentation by T. Rowe Price Emerging Markets - Annual Performance Review as of December 31, 2009**

John Plowright and Todd Henry presented the annual performance review for T. Rowe Price. Mr. Plowright presented an overview of the company and reviewed the investment team and their investment process and philosophy.

Mr. Moore asked why the portfolio was more volatile relative to the index. Mr. Henry explained it was mainly because of the portfolio's bias toward growth and the utilization of full opportunities including front tier companies.

Mr. Henry reviewed the market outlook, the performance of emerging market equities and relative valuations of emerging markets versus developed markets, and also the consensus earning per share growth expectations.

Mr. Peltola asked about some of the country holdings and Mr. Henry stated Central and Eastern European countries had more debt issues and the portfolio had no exposure to those countries. He explained the portfolio was overweight in Latin America because Latin America consistently outperformed the index significantly. He also explained the underweight in South Korea and Taiwan was due to their dependence on exports.

Mr. Henry reviewed the sector and industry diversification and closed with noting the annual performance was up but was still behind the index.

#### **5. Presentation by the Boston Company Emerging Markets – Annual Performance Review as of December 31, 2009**

Mr. Romero acknowledged John Havens and Bill Adams from The Boston Company (TBC).

Mr. Havens provided background on the firm and its philosophy and noted the investment team remained intact. He reported the portfolio's market value as of December 31, 2009, was \$98,778,130.

He reviewed the investment performance and noted the portfolio kept pace with the benchmark.

Mr. Adams reviewed the returns in various market conditions and also global real earnings which were inflation adjusted over time. He indicated the portfolio performed well in its stock selections in Asia, but it lagged in Latin America mainly due to being overweight in Brazil. Mr. Peltola asked why the portfolio was overweight in South Africa, and Mr. Adams indicated South Africa had terrific relative value, well-run companies, and well managed stocks.

Mr. Adams also reviewed the emerging value equity based on country weights and portfolio structure and noted that on a risk adjusted basis, TBC was delivering good returns.

## 6. Report on Performance of Aetos Capital, LLC

Mr. Wolfson provided background for this item which recommended Aetos Capital be removed from watch status as a result of outperforming its benchmark for the trailing 12- month period and no longer meeting the Plan's short-term watch status criteria. He pointed out that the second column heading in Table 2 on page 6.2 should read "1-Year Ending 01/31/10" not 01/31/09.

*Mr. Moore moved for approval to remove Aetos Capital from watch status; seconded by Ms. Coffin, and carried after the following vote:*

*Ayes: Romero, Coffin, Moore, Poole, and Peltola*

*Nays: None*

## 7. Report on Performance of Pacific Alternative Asset Management Company (PAAMCO)

Mr. Wolfson provided background for this item which recommended PAAMCO be removed from watch status as a result of outperforming its benchmark for the trailing 12-month period and no longer meeting the Plan's short-term watch status criteria.

*Mr. Moore moved for approval to remove PAAMCO from watch status; seconded by Ms. Coffin, and carried unanimously after the following vote:*

*Ayes: Romero, Coffin, Moore, Poole, and Peltola*

*Nays: None*

*(The Board recessed at 11:13 a.m. and reconvened at 11:17 a.m.)*

*(Mr. Freeman joined the meeting at 11:17 a.m.)*

## 8. Approval of July 1, 2010, Annual Cost of Living Adjustment for Eligible Recipients of Monthly Benefits from the Water and Power Employees' Retirement Plan

Ms. Bhatia reported the Plan provides for annual cost of living adjustments (COLA) for eligible retirees based on the Consumer Price Index (CPI) each year. She stated the maximum annual COLA allowance permitted by the Plan is 3.0%, and if the CPI is greater than 3.0%, the amount in excess of 3.0% is added to the member's COLA bank. When the CPI is less than 3.0%, funds are drawn from the COLA bank to increase the COLA to 3.0%.

She reported the CPI used to determine this year's COLA was negative .08%, and Staff had consulted with the City Attorney's Office to determine an implementation plan. She stated 90% of the retirees have enough in their COLA bank and will receive the 3.0% adjustment; and those who retired July 2, 2005, to July 1, 2008, have less in their bank and will only receive a 2.8% COLA. She added those who retire between July 1, 2010, to June 30, 2011, will not receive an adjustment this year. She further added the negative .08% will not be carried over in COLA banks.

*Mr. Moore moved for approval of the July 1, 2010, COLA; seconded by Ms. Coffin, and carried unanimously after the following vote:*

*Ayes: Romero, Coffin, Moore, Poole, Peltola, and Freeman*

*Nays: None*

## **9. Discussion of the Retirement Office Budget for Fiscal Year 2010-2011; and Possible Action**

Ms. Bhatia described the proposed Retirement Office budget for Fiscal Year 2010-2011. She stated the Retirement Office was requesting two permanent Clerk Typist positions critical for the continued and uninterrupted operation of the newly implemented document imaging system. She noted the Retirement Office's Annual Personnel Resolution (APR) for Fiscal Year 2010-2011 included the two Clerk Typist positions plus the four positions (one Investment Officer and three Principal Clerks Utility) approved by the Retirement Board for Fiscal Year 2009-2010 which were not included in the Department's 2009-2010 APR.

Mr. Freeman questioned the increase in salaries and the increase in administrative expenses from \$14 million to \$21 million.

Ms. Bhatia explained the \$14 million to \$21 million increase was for investment fees which are paid based on Plan assets. She stated that it was a separate line item and was not billed to the Department. She added the Retirement Board selected a certain number of investment managers and was contractually obligated to pay them those fees.

With respect to salary, Ms. Bhatia explained the Retirement Office had faced a number of delays in filling budgeted positions which resulted in a lag of approximately \$2 million in expenses.

After extensive discussion Mr. Freeman requested this item be deferred to the next meeting to allow Staff time to report on further details and the consequences if the budget were to remain at the 2009-2010 level.

Mr. Moore concurred and asked Staff to provide the projected actuals for Fiscal Year 2009-10.

Mr. Romero asked Mr. Peltola why the memo from Gregory Black (Director of Budget, Rates, and Planning) to the Retirement Plan Manager regarding the Retirement Office Budget for Fiscal Year 2010-2011 and the 5-Year Financial Plan was sent to so many people who have nothing to do with the Plan, and why they received copies prior to the Retirement Board meeting and discussion.

Mr. Peltola replied that most who were copied normally receive everything connected with the budget, and the memo was advisory only.

Discussion then turned toward the outstanding governance issue with respect to budget approval.

## **10. Discussion of Update on Governance Issues; and Possible Action**

Pete Echeverria from the City Attorney's Office, whose responsibilities include the oversight of the civil functions and supervision of the attorneys who advise the Retirement Board as well as the DWP Board of Commissioners, said this was a very significant issue and not to be taken lightly. He said he was currently reviewing reports provided by his Staff and the report made available by Klausner & Kaufman, and he expected to have a final answer and conclusion at the next meeting on April 7.

Mr. Moore asked Mr. Echeverria if the opinion he would provide would include the other governance issues, such as staffing levels, in addition to the control of the budget. Mr. Echeverria replied the issues presented to the City Attorney's Office were related to the staffing levels and the funding levels of the Plan and he did not know if the broader governance issues were included in the information he received because he had not yet completed his review. He said he would try to have a full report by the next meeting, and if a full report was not ready by April 7, he would provide a supplemental report at the following meeting.

*(Mr. Freeman left the meeting at 12:05 p.m.)*

#### **11. Discussion of Formation of Committee Relative to Legislative Matters; and Possible Action**

Ms. Bhatia reported that at a previous meeting, Mr. Moore had requested discussion of the possible formation of a new committee to address legislative matters that would be of interest to the Board. Mr. Moore added he was interested in becoming better informed about legislation that could affect the pension community and suggested a committee be formed to express the Board's position on those matters through the channels of the City Council and the Mayor's Office.

Mr. Romero appointed Mr. Moore, Ms. Coffin, and Mr. Poole to the newly formed Legislative Committee, with Mr. Moore as the Committee Chair.

- 12. a) Summary of Investment Returns as of January 31, 2010**
- b) Market Value of Investments by Fund and Month as of January 31, 2010**
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Car Fund as of January 31, 2010**

This item was for reference only and included no discussion.

#### **13. Retirement Plan Manager's Comments**

Ms. Bhatia reported that representatives from the City's three pension funds attended the Budget and Finance Committee meeting held on March 8, 2010, to discuss the actions taken with respect to the placement agent policy. Ms. Bhatia provided the Committee with a copy of the resolution that was adopted by the Retirement Board as well as the details of the policy pertaining to the placement agents.

She reported that also discussed at the Budget and Finance Committee meeting was the assessment of the feasibility of implementing recommendations by the League of Women Voters regarding City retirement benefits. She stated representatives from the City's three pension plans and the City Council were currently meeting to discuss these topics, and Mary Higgins, Assistant Retirement Plan Manager, was attending the Council meeting.

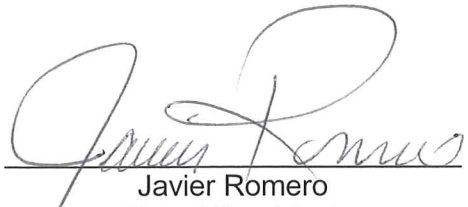
Ms. Bhatia stated the report on the Plan amendment regarding the Plan's tax qualified status was now scheduled for the March 18 Board of Commissioners meeting. She stated after approval by the DWP Board, this item would be returned to the Retirement Board for adoption and implementation into the Plan.


She reported Staff continues to conduct testing on the new System, and the next module should be implemented by the end of March.

**14. Future Agenda Items**

Ms. Bhatia stated the March 24 meeting was cancelled due to lack of quorum, and the next meeting would be a Special meeting on April 7. She noted The Segal Company would present the Reciprocity Study and the Experience Study.

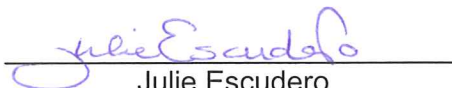
There being no further business, the meeting adjourned at 12:12 p.m.

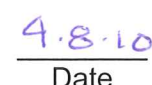
  
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Javier Romero  
Board President

  
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Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

  
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Date

  
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Julie Escudero  
Utility Executive Secretary

  
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Date