

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

MINUTES

SEPTEMBER 8, 2010

Board Members Present:

Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Ann Santilli, Chief Accounting Employee

Board Members Absent:

Austin Beutner, Interim General Manager
Javier Romero, President
Christina Noonan DWP Commissioner

Staff Present:

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

Others Present:

Grace Yuen, Simpson & Simpson
Frank Liu, Simpson & Simpson
Sandra Willen, Wells Capital Mgmt.
Thomas O'Connor, Wells Capital Mgmt.
Joel Damon, J.P. Morgan
Brett Cambern, J.P. Morgan
Neil Rue, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance
Marie McTeague, Deputy City Attorney

Vice President Cindy Coffin called the meeting to order at 10:01 a.m. following the Pledge of Allegiance.

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

Public Comments

There were no public comments.

1. Report from Pension Consulting Alliance, Inc.-Wells Capital Management On-Site Visit

No Discussion

2. Report on Organizational Change at Capital Dynamics

No Discussion

Mr. Moore moved for approval of Item 1 and 2 as Received and Filed, seconded by Mr. Poole, and carried after the following vote:

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

3. Presentation by Pension Consulting Alliance, Inc-Second Quarter Hedge Fund of Funds Performance Report as of June 30, 2010

Ms. Coffin acknowledged David Sancewich from Pension Consulting Alliance (PCA).

Mr. Sancewich gave an overview and summary on the Plan's Hedge Fund of Funds portfolio for quarter ending June 30, 2010. He began by stating that the Plan's hedge fund portfolio underperformed its policy benchmark with a negative excess return of -2.3% for the quarter but added that over a one year period, the Plan's hedge fund portfolio outperformed its benchmark by 6.7% net of fees. The negative long term performance since inception and for the three-year period was due to the severe negative equity market returns in the second half of 2008. He mentioned that due to the Board's excellent manager selection, the Plan's portfolio outperformed its median peer funds in all periods. The Plan's portfolio added \$7,000,000 in value, and returns for the last two months contributed significantly. He also mentioned the Plan's portfolio risk profile indicated the portfolio had approximately 7% to 8% volatility since inception while the S&P 500 had approximately 19% volatility.

Mr. Sancewich proceeded to discuss each hedge fund of funds manager in the Plan's portfolio. He mentioned that both Aetos and PAAMCO had no significant items to report and that PCA and staff will be conducting an onsite visit with PAAMCO in the near term. In terms of style allocation for the two funds, Mr. Sancewich stated that both funds provided diversification for the Plan as Aetos had 52% of its portfolio in relative value managers, while PAAMCO had 56.26% of its portfolio invested in opportunistic managers.

Mr. Sancewich noted that Aetos had a dismal month in May, and during the quarter Aetos added Centerbridge Credit Partners, a distressed credit fund that invests across the capital structure in companies undergoing some form of restructuring.

Mr. Sancewich discussed PAAMCO's performance and reminded the Board that PAAMCO's non-disclosure agreement prohibited the names of the managers from being shown in the report. He noted both PCA and staff have the names if needed. For the second quarter, PAAMCO made six manager changes in the Plan's portfolio. He stated three managers were added (a convertible bond hedge manager and two long/short managers) and three managers were terminated (a convertible bond hedge manager, an equity market neutral manager, and a long/short manager.) In addition, a private loan from a terminated manager was transferred to an existing manager in the portfolio. He also mentioned that PAAMCO performed better than Aetos during the quarter and had a higher turnover than Aetos.

Mr. Sancewich concluded with an industry overview and noted that all major hedge fund strategies had negative returns for the second quarter.

4. Annual Presentation for Wells Capital Core Fixed Income Mandate

Ms. Coffin acknowledged Sandy Willen and Thomas O' Connor from Wells Capital. Ms. Willen provided a brief performance overview of the funds Wells Capital manages for the Plan.

Mr. O'Connor spoke about collateralized obligations, agency mortgages, and asset back securities. He explained the type of collateralized mortgage obligations in which Wells Capital invests and he explained the differences among them. He noted that they were willing to reduce yield to gain structure and safety.

In response to Ms. Coffin's question regarding Wells Capital's watch status, Mr. Wolfson stated that Wells Capital remained on watch status due to organizational changes, but Staff anticipated a recommendation to remove them from watch once the watch period was completed.

5. Annual Presentation for J.P. Morgan Core Fixed Income Mandate

Ms. Coffin acknowledged Brad Cambern and Joel Damon from J.P. Morgan.

Mr. Damon provided an overview of J.P. Morgan's history.

Mr. Cambern reviewed the firm's investment philosophy. He noted J.P. Morgan had only managed the Plan's portfolio for three months so far. He continued with an overview of the portfolio's performance for the quarter. He stated the performance for both the Retirement Fund and the Health Benefits Fund were slightly below the index.

He noted the firm was selectively adding some non-agency exposure to the portfolio, and Mr. Moore asked about the under-weights in agencies and also asked about the firm's observations regarding how the federal government might move forward regarding Fannie Mae and Freddie Mac. Mr. Cambern replied they have historically been low in agency debt and they liked agency mortgages which tend to have the underlying asset of the home in a worse case scenario. With respect to Fannie Mae and Freddie Mac, Mr. Cambern stated the government has demonstrated its ability to help in situations where there is economic need. He added the collateralized mortgage obligations they purchase have structures to protect them.

6. Discussion of the Status of the Approved Budgeted Positions for the Retirement Office

Ms. Bhatia reported nothing new regarding the request to fill the three Principal Clerk Utility positions and the two Clerk Typist positions previously approved by the Retirement Board for the Retirement Office budgets for Fiscal Year 2009-2010 and Fiscal Year 2010-2011, respectively. She explained the discussions previously held recommended exploring how to properly communicate with the DWP Board of Commissioners regarding the approval of the positions, as opposed to pursuing a budget amendment.

Discussion ensued regarding the steps necessary to move this forward. It was decided that because several of the Retirement Board members were new, Staff would bring back justifications for the positions and determine if the justifications should be strengthened. At that point, the Board could decide if it wanted to pursue an amendment to the Department's Annual Personnel Resolution, with the help of Department management and Commission representatives.

Mr. Poole requested this item remain on the agenda for further discussion.

8. Investment Reports

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

No discussion

9. Retirement Plan Manager's Comments

Ms. Bhatia reported that earlier, representatives from Simpson & Simpson met with the Audit Committee to discuss the audit plan relative to the audit for Fiscal Year ending June 30, 2010. The audit is due to the City Controller's Office by November 8, and the auditors have indicated they will conclude their field work by October 8.

Ms. Bhatia reported the actuarial valuation report will be presented to the Board by the end of October. Ms. Bhatia reported some glitches were discovered during the testing of the payroll component for the new system, they have been addressed and testing continues.

She reported Ms. Christina Noonan has been appointed to the DWP Board of Commissioners and has also been appointed as the new Commission Representative on the Retirement Board.

She stated the reciprocity item was approved at the September 7 DWP Commission meeting; however, because the City Council exercised its power to assert jurisdiction over the item, five Council meeting days must pass before the item can be brought back to the Retirement Board for adoption. She indicated the media has also inquired about the details of the data collected.

She reported that the Plan Amendment with respect to the additional annuity distribution option was being finalized and would be brought to the Board at the next meeting, to initiate the Plan Amendment process.

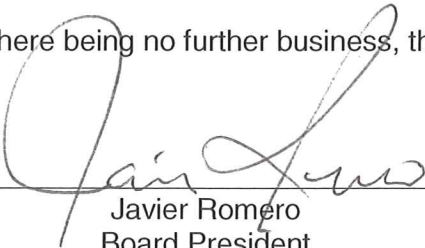
She indicated the Plan Amendment regarding the interest crediting for both the additional and regular contribution accounts was in the meet and discuss process with the unions, and once that process was completed, the Plan Amendment process could begin.

She reported an on-site visit to the new location of the Retirement Office has been scheduled for September 9. She stated Staff provided the organization chart for Retirement to the architect in charge to assist in the design of the office layout. She indicated the Joint Labor Management Committee would be forming a sub-committee to address issues that might arise as a result of the move and, to date, she had no further details as to when the relocation will take place. She added that a memo describing the necessity of essential interaction and required adjacencies between the Retirement Office and various Department offices within the JFB building was submitted to Gary Wong and a copy was provided to Cecilia Weldon.

10. Future Agenda Items

No Discussion

There being no further business, the meeting adjourned at 11:12am.



Javier Romero
Board President

10/13/10

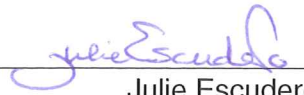
Date



Sangeeta Bhatia
Retirement Plan Manager

10/13/10

Date



Julie Escudero
Utility Executive Secretary

10.13.10

Date