

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

MINUTES

MARCH 27, 2013

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Robert Rozanski, Retiree Member
Ronald O. Nichols, General Manager
Barry Poole, Regular Member

Board Members Absent:

Mario Ignacio, Chief Accounting Employee
DWP Commissioner - Vacant

Staff Present:

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

Others Present:

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 9:03 a.m.

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

Public Comments

Ms. Escudero reported no requests for public comments.

Mr. Romero announced that Retirement Board Vice President Cindy Coffin was retiring. He read a resolution thanking and commending her for her service and wishing her well for the future. Ms. Coffin thanked everyone and had kind words to say to her fellow Board Members, Staff, and consultants.

1. Approval of Minutes

- a) February 13, 2013, Regular Meeting
- b) February 27, 2013, Regular Meeting

2. Termination from Rolls - Monthly Allowance from the March 2013 Retirement Roll

Mr. Rozanski moved that the Board approve Items 1 and 2; seconded by Ms. Coffin.

Ayes: Coffin, Nichols, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio

THE MOTION CARRIED.

3. Report of Payment Authorizations for February 2013

4. Notice of Deaths for February 2013

- 5. **Investment Reports for February 2013**
 - a) **Summary of Investment Returns as of February 28, 2013**
 - b) **Market Value of Investments by Fund and Month as of February 28, 2013**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of February 28, 2013**
 - d) **Summary of Contract Expirations**
- 6. **Report on Status of Insurance as of March 11, 2013**
- 7. **Retirement Board Meeting Attendance Report for 2012**

Mr. Rozanski moved that the Board accept Received and Filed Items 3 through 7; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

8. Discussion of Extension of Agreement with James Evans and Associates

Ms. Carranceja explained this item recommended the Board extend the agreement with James Evans and Associates (JEA), the vendor for the Integrated Pension System, to complete the remaining phases of the project. She noted the extension will be through March 31, 2015, and the existing contract terms will remain unchanged.

Mr. Rozanski moved that the Board approve Resolution No. 13-68 to extend the agreement with JEA; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

9. Discussion of Organizational Changes at Gateway Investment Advisers, LLC - Covered Call Manager

Mr. Wolfson reported this item recommended the Board place Gateway Investment Advisers, LLC, on organizational watch due to significant management changes at the firm. David Sancewich and Kay Ceserani from Pension Consulting Alliance (PCA), the Plan's investment consultants, noted PCA has no major concerns with the changes.

Mr. Rozanski moved that the Board approve Resolution No. 13-69 to place Gateway on watch; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

10. Discussion of Performance of Fred Alger Management, Inc., - Large Cap Growth Manager

Mr. Wolfson provided the background on this item to extend the watch status for Fred Alger Management, Inc., (Fred Alger). He noted Fred Alger has been on short-term watch since May 2012. He reported that performance has improved; however, the longer term performance still lagged the benchmark, so Staff and the consultants at Pension Consulting Alliance (PCA) recommended the Board extend the watch period for an additional six months.

Kay Ceserani from PCA added the maximum watch period is 15 months so if Fred Alger's performance does not improve, PCA may recommend that the Board begin the formal Request for Proposal process.

Mr. Rozanski moved that the Board approve Resolution No. 13-70 to extend the watch status for Fred Alger for an additional six months; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

11. Discussion of Performance of Frontier Capital Management - Small Cap Growth Manager

Mr. Wolfson provided the background on this item to extend the watch status for Frontier Capital Management (Frontier). He stated the Board placed Frontier on performance watch in May 2012, and they have generated mixed results since.

Mr. Rozanski moved that the Board approve Resolution No. 13-71 to extend the watch status for Frontier for six months; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

12. Discussion of Performance of Loomis Sayles & Company - High Yield Manager

Mr. Wolfson reported the Board placed Loomis, Sayles & Company (Loomis) on watch in May 2012 for not meeting the Plan's short-term performance criteria. He stated Loomis has improved its performance and has consistently exceeded its benchmark; therefore, Staff recommended the Board remove them from watch.

Mr. Rozanski moved that the Board approve Resolution No. 13-72 to remove Loomis from watch; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

13. Presentation by Pension Consulting Alliance, Inc. – Fourth Quarter Real Return Performance

David Sancewich from Pension Consulting Alliance (PCA) presented the quarterly report for the Real Return Portfolio. He reported the portfolio outperformed its benchmark for the year-to-date and three-year periods and has improved significantly since inception. He noted the portfolio's total exposure was approximately \$453 million in both the Retirement and Health Plan funds.

He reviewed the portfolio's individual mandates and segments. He noted the Global Inflation Linked portfolio trailed the benchmark and its peers, and the Hedge Fund portfolio outperformed the benchmark and median fund over the past one-year and three-year periods.

He reviewed the annualized returns and noted the volatility was significantly less than the benchmark. He also reviewed the allocations.

He closed with an expression of his appreciation to Ms. Coffin.

14. Presentation by Courtland Partners - 2013 Real Estate Strategic Plan and Portfolio Model

Michael Humphrey and Bill Foster presented the Strategic Plan and Portfolio Model for the Real Estate portfolio. Mr. Humphrey stated Courtland's focus, given the market volatility, is on income returns. He reported Value-Add investments have accomplished that so far, and Core investments are consistent with market conditions. He stated Courtland's objective is for the Value-Add and Opportunistic allocations to take advantage of the distress in the current market without high return volatility. He noted the portfolio's current exposure was 62% in Core investments, 30% in Value-Add investments, and 8% in Opportunistic investments.

Mr. Foster explained the strategic plan proposed changes to the investment policy to take advantage of opportunities in the marketplace. He pointed out that fully funded, the portfolio's exposure would be 53% in Core, 36% in Value-Add, and 12% in Opportunistic; however, the current policy only allows for ranges between 60% to 100% for Core, 0% to 25% for Value-Add, and 0% to 15% for Opportunistic.

Mr. Humphrey reviewed current concerns with Core and noted the proposed change would provide slightly more Value-Add exposure with the understanding that the portfolio would eventually evolve back to more Core exposure.

Mr. Foster discussed why some Value-Add opportunities are currently more attractive. He also reviewed the components of return and leverage. Discussion ensued regarding various aspects of leverage, with Mr. Humphrey stating Courtland is not concerned with the current amount of leverage but, given the market's past, they will continue to monitor the leverage.

Mr. Nichols asked how many Opportunistic investments are in existing distressed properties versus recently built properties and if the mix is changing due to the market improving in certain geographic areas. Mr. Humphries stated the mix is changing with more opportunities in Europe and Asia, which implies the market is recovering in the United States; however, a fair amount of value recovery still needs to take place in the United States.

In response to Ms. Bhatia's question regarding the fairness of asset values, Mr. Foster replied that Courtland regards the valuation information they receive from managers, which includes appraisals, to be the best indication of value at the time.

Mr. Foster continued with a review of property type diversification and geographic diversification targets, and he indicated Courtland would like to increase the focus on industrial and international properties. He also reviewed several portfolio models and the projected changes in the portfolio value.

Based on the current market, Mr. Foster stated over the next four years the Plan should fund approximately \$150 million to Core, \$75 million to Value-Add, and \$50 million to Opportunistic. Because this is outside the policy, he stated Courtland recommended the current ranges of 60% to 100% for Core, 0% to 25% for Value-Add, and 0% to 15% for Opportunistic be changed to 50% to 100% for Core, 0% to 40% for Value-Add, and 0% to 20% for Opportunistic. He stated Courtland would provide a recommended policy change at a future meeting. He added when the interest rates normalize, Courtland would propose returning to a more Core-oriented portfolio.

With the change, Courtland proposed this year to fund \$50 million in Core, \$50 million in Value-Add, and \$25 million in Opportunistic.

Mr. Romero asked if Courtland would be considering direct ownership within five years. Mr. Humphrey stated that considering the size of the portfolio, it would be difficult at this time so they prefer to continue indirectly investing through funds.

15. Presentation by Frontier Capital Management Company, LLC, Small Cap Manager - Annual Performance Review

Leigh Anne Yoo and Jim Colgan presented the annual performance report for Frontier Capital Management (Frontier).

Ms. Yoo provided a brief overview of the firm and noted Frontier's investment process and philosophy remain unchanged.

Mr. Colgan reviewed Frontier's process, strategy, and philosophy, and noted all but one of their products have been in the first quartile since inception. He pointed out that some underperformance is a function of their "growth-at-reasonable-price" style, which achieves good results over the long term.

He reviewed Frontier's performance since 2008 and described how market conditions affect performance. He noted Frontier made changes in the portfolio in 2012 based on shortfalls in the technology sector and market sentiment, and he reported the changes added approximately 250 basis points.

He explained their performance looks nothing like the benchmark, and that instead of focusing on the benchmark, they focus on companies they believe will grow rather than on higher value stocks. He noted, since inception, performance is down but they believe that will change as higher value stocks start to slow and drop.

16. Presentation by Ernest Partners, LLC, Small Cap Manager - Annual Performance Review

Trey Greer and Jessie Magee presented the annual performance report for Ernest Partners. Mr. Greer began with a brief update on the firm. He reported the portfolio in which the Plan is invested has been closed for approximately six years. He described Ernest Partners' investment process and indicated it remains consistent. He also provided a brief market overview.

He reviewed the performance through March 26 and reported the portfolio was up 11.8% year-to-date versus the benchmark at 11.6%. He noted performance lagged during the one-year period but outperformed consistently net of fees over the three-year and since-inception periods.

Mr. Magee reviewed the portfolio's asset growth, the top ten contributors and detractors, sample holdings, and sector weightings.

17. Retirement Plan Manager's Comments

Ms. Bhatia reported Staff will begin the process of filling the Board position vacated by Ms. Coffin. She stated Staff will follow the special election rules and coordinate with the City Clerk's Election Division to begin the election process. She stated the Board of Water and Power Commissioners will need to approve the resolution for the election. She added it will take approximately three to four months to complete the entire process.

She reported the Board could face quorum issues for upcoming meetings and that meetings might become longer if a meeting is cancelled due to no quorum and those items are carried over to the next meeting.


She reported the actuarial experience study is scheduled to be presented to the Board on April 24. This study covers 2009 to 2012, and is likely to include some changes to underlying assumptions.

With respect to the new system, Ms. Bhatia noted Staff is considering ways to add more resources by JEA, the vendor, to expedite some of the pending items. She stated one option is for a JEA representative to work on-site to expedite direct feedback between JEA and Staff, and Staff is gathering information on this option.

18. Future Agenda Items

No items were requested at this time.

There being no further business, the meeting adjourned at 10:38 a.m.



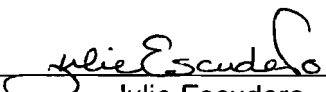
Javier Romero
President

5/15/13
Date



Sangeeta Bhatia
Retirement Plan Manager

5/15/13
Date



Julie Escudero
Utility Executive Secretary

5.15.13
Date