

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

MINUTES

AUGUST 31, 2011

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Mario Ignacio, Chief Accounting Employee
Ronald O. Nichols, General Manager

Board Members Absent:

DWP Commissioner - Vacant
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

Staff Present:

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

Others Present:

Alan Manning, Assistant City Attorney

President Romero called the meeting to order at 9:09 a.m.

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

Public Comments

No Public Comments were received.

Consent Items

1. **Request for Approval of Minutes:**
 - a) **July 27, 2011, Regular Meeting**
 - b) **August 1, 2011, Special Meeting**

2. **Termination from Rolls**
Termination of Monthly Allowance from the July 2011 Retirement Roll

Ms. Coffin moved for approval of Items 1 and 2; seconded by Mr. Nichols.

Ayes: Coffin, Ignacio, Nichols, and Romero

Nays: None

Absent: Poole and Rozanski

THE MOTION CARRIED.

Received and Filed Items

3. **Report of Payment Authorizations for July 2011**

4. **Notice of Deaths for July 2011**

5. **Investment Reports for July 2011**
 - a) **Summary of Investment Returns as of July 31, 2011**
 - b) **Market Value of Investments by Fund and Month as of July 31, 2011**
 - c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2011**
 - d) **Summary of Contract Expirations**

6. Report on Status of Insurance as of August 9, 2011

Ms. Coffin moved for approval of Items 1 and 2; seconded by Mr. Ignacio.

Ayes: Coffin, Ignacio, Nichols, and Romero

Nays: None

Absent: Poole and Rozanski

THE MOTION CARRIED.

Regular Items

7. Presentation by Pension Consulting Alliance – First Quarter Private Equity Performance Review for Period Ending March 31, 2011

Mike Moy from Pension Consulting Alliance (PCA) provided an overview of the portfolio. He noted EnCap VIII and Audax III were added in the first quarter. He reported the since-inception net Internal Rate of Return (IRR) climbed to 6.5 % from 6.0% at the end of December 2010, the portfolio collected \$4.8 million in distributions in the first quarter of 2011 compared to \$6.2 million in distributions for all of 2010, and the portfolio's value increased by \$14 million in the first quarter of 2011 compared to the \$9 million increase during the last quarter of 2010.

Mr. Moy briefly reviewed the IRR for the one-, two-, three-year, and since-inception periods compared to the Russell 3000 + 300 index and the Cambridge Custom benchmark. He explained the major difference between the Russell 3000 + 300 index and the Cambridge Custom benchmark is the Cambridge Custom benchmark is a younger program.

8. Presentation by Pension Consulting Alliance – Second Quarter Performance Review for Period Ending June 30, 2011

David Sancewich from Pension Consulting Alliance (PCA), reported the portfolio was up 19.3% which represents an increase of \$1.1 billion. As of June 30, 2011, the Retirement Plan was valued at \$7.4 billion and the Health Plan was \$1.2 billion. He added the Health Plan was up 18.9% for the past year and 5.8% for the past three years. He also reviewed the performance by individual managers.

He reviewed the portfolio's performance by individual strategic classes for the quarter, one-year, three-year, and five-year periods and noted the value for Cash has not increased; Domestic Equity has been positive; International Equity has trailed the index; Fixed Income and Real Return have performed well; and Real Estate has outperformed.

Mr. Nichols asked about the relative performance of the Domestic versus International Equities. Mr. Sancewich responded Domestic has recovered quite well, but from a performance standpoint still has a way to go from 2008. Developed and Emerging Markets are lagging slightly. He stated more issues have occurred in the international space but, in the long term, international markets, particularly global equity with US and international, are attractive. He added a lot of talk has occurred that Developed Markets are the place to be and much talk has taken place across the board of moving assets away from US Equity; however, that has not proved to be the case return-wise over the last five- and twenty-year periods. He noted the Plan's policy takes that into account which is why some rebalancing in the International Equity and US Equity portfolios will take place to help capture that over the long term.

9. Presentation by Pension Consulting Alliance – International Equity Structure Review

David Sancewich from Pension Consulting Alliance (PCA), informed the Board that because PCA had not included an official memo as part of their presentation, the Board would not be able to vote on a recommendation at this time; however, he would review PCA's recommendation during his presentation. He noted PCA's official memo should be provided in time for action at the next meeting.

He reminded the Board of the current portfolio structure and the objective to achieve a total return net of fees that outperforms the benchmark. He stated because the current portfolio is 100% actively managed, the Plan is paying higher fees than it would for a passive portfolio and the tracking level is also higher. He reviewed the managers, roles, and benchmarks of the current structure, and he reviewed the tracking error and risk factors of the current portfolio.

Mr. Sancewich reported the majority of the portfolio has been underperforming both from an asset allocation and a manager selection standpoint. He reviewed the various options provided, and he stated PCA recommended Option 3b to replace the core manager (INVESCO) with a passive portfolio, to market-weight the EM portfolio, and to replace The Boston Company's developed and emerging markets with a relative value manager.

He also reported the index exposure, as of June 30, showed emerging markets at 24% and the Plan's International Equity portfolio has 17%, so PCA was recommending increasing the allocation to 24%.

Mr. Nichols asked if the current performance numbers were a function of the weighting or a function of the managers, and Mr. Sancewich said it was both. He explained the portfolio was underweight in emerging markets, and the managers, with the exception of Pyramis, have not performed as expected. He stated: 1) the asset allocation needed to be increased in the emerging market weight, and 2) managers who are less volatile and who can add value needed to be included.

Mr. Sancewich responded to a question from Mr. Wolfson by stating the original weightings were decided according to the benchmark, and the benchmark weighting to emerging markets has changed over the last three to five years. He stated the last major overhaul of this portfolio was performed in 2004, and a brief review was conducted in 2008. He added this type of review is generally performed every three years.

Mr. Sancewich explained why active versus passive management was being considered. He stated PCA's recommendation as presented in the material provided will be provided at the next meeting along with their official memo with detailed information.

10. Discussion of Ratification of the Board's Action to Select a New Active International Emerging Markets Manager

Mr. Wolfson reported this item was to ratify the Board's decision on August 17, 2011, to select Vontobel as the new International Active Manager for Emerging Markets.

Mr. Romero thanked staff for negotiating the contract and getting the fees lowered.

In response to a question from Ms. Coffin regarding possible issues with Vontobel's insurance, Mr. Wolfson stated preliminary discussions have taken place with the Department's Risk Manager and the process is underway.

Ms. Coffin moved for approval of Resolution No. 12-18 to ratify the selection of Vontobel; seconded by Mr. Ignacio.

Ayes: Coffin, Ignacio, Nichols, and Romero

Nays: None

Absent: Poole and Rozanski

THE MOTION CARRIED.

11. Discussion of Draft Request for Proposal Document

Mr. Wolfson reported the attached draft Request for Proposal (RFP) document was provided for the Board's review and input.

David Sancewich, from Pension Consulting Alliance (PCA), explained the response evaluation process. Mr. Romero indicated he would like to interview five candidates.

Ms. Coffin asked if insurance information is submitted during the RFP response or after the fact. Mr. Wolfson responded the insurance requirements are published with the RFP, but the actual insurance coverage is provided by the selected manager after the fact. He stated some discussion takes place with the managers, but Risk Management will only review the coverage for the respondents approved by the Board. Ms. Bhatia said the provisions the managers are expected to comply with are included in the RFP.

Mr. Nichols asked about the selection criteria. Mr. Wolfson stated that was open for discussion; however, he explained that in the past, PCA has provided the Board Members with a summary of the responses. Ms. Bhatia stated the criteria include performance, organizational structure, etc. Mr. Nichols requested a copy of the scoring sheet for the last set of interviews.

Mr. Nichols asked if the scoring sheet provided additional scoring criteria on a quantitative basis or a relative basis. Mr. Sancewich indicated it was both.

Ms. Coffin moved for approval of the draft Request for Proposal; seconded by Mr. Nichols.

Ayes: Coffin, Ignacio, Nichols, and Romero

Nays: None

Absent: Poole and Rozanski

THE MOTION CARRIED.

12. Discussion of Exceptions to Investment Guidelines under Specific Circumstances

Ms. Bhatia reported this item was brought back for discussion at the request of the Board Members. She explained an emergency situation had recently occurred that could have potentially affected the portfolio, and Staff had scrambled to set up a special Board meeting to provide a temporary guideline exemption to one of the investment managers. She stated that delegating

some authority from the Board to the Retirement Plan Manager, if necessary under certain circumstances, had been discussed to provide exceptions to investment managers with the understanding that the Retirement Board is the ultimate authority for approval of all investment manager guidelines. She stated Staff discussed some suggested language with PCA and that language, plus a resolution addressing the specific circumstances, was before the Board Members for discussion and approval. She clarified the exception granted by the Board at the special meeting was temporary and for that specific situation, whereas the language before the Board is more permanent in case a similar situation should occur in the future.

Mr. Nichols asked for guidance from the City Attorney regarding Brown Act considerations for providing information to the Board Members if future situations occur and a quorum for a special meeting was not possible.

Assistant City Attorney Alan Manning stated no problem would arise in providing information to the Board as long as it was one-way communication and no cross discussion among Board Members transpired that could be construed as a Board meeting.

The Board Members agreed with Mr. Romero's suggestion that the language should be written such that the first attempt would be to have a special Board meeting, and only if a special meeting could not be held, under any circumstances, would the authority be delegated to the Retirement Plan Manager. Mr. Nichols added he would like to have language included that addresses the need for one-way electronic communication to the Board Members to inform them of the circumstances and the outcome.

Ms. Bhatia stated the requested information will be inserted and Staff will bring back the new language for Board approval.

13. Retirement Plan Manager's Comments

Ms. Bhatia reported Labor Relations has now received a draft report of The Segal Company's design study of the reciprocity program, and she and Mary Higgins would be participating in a conference call scheduled for later that day with representatives from The Segal Company, the office of the City Administrative Officer, and the Department's Labor Relations Office.

She reported Staff continues with data clean-up and validation issues and accounting reports for the new system, all of which are necessary before the new module can be implemented.

She reported the annual member statements were recently sent to the active, vested, and inactive members. She stated Staff worked diligently in this effort, and she thanked them as well as the Information Technology Services, Print Shop, and Mail Room staff for their help. She stated the annual member statements were printed on regular paper, and Staff used standard envelopes rather than custom paper and envelopes, which will lead to future cost reductions with the new system.

Ms. Bhatia reported Labor Relations Staff is again coordinating a meeting with IBEW representatives to discuss the document imaging contract. The vendor will be invited to provide a demonstration on the work they will perform, and hopefully be able to demonstrate that they do have the expertise to perform the project. Ms. Bhatia added that she and the Senior Systems Analyst performed a due diligence site visit to the vendor's premises and received a demonstration. She said Staff is quite confident the vendor will be able to handle the project competently.

Mr. Romero asked how the annual member statements were distributed because only half of his staff received their statements. Ms. Bhatia and Ms. Higgins explained the process of how the statements are sent to the members' work locations. They stated that this year the timekeeping information was included on the envelopes so if any statements included incorrect work locations, they would be returned to the timekeepers for redistribution to the correct locations. Ms. Bhatia stated Staff's understanding was that everything had been distributed, but Staff would check with the Mail Room to determine if anything was still there.

14. Future Agenda Items

No future items were requested at this time.

With no further business, the meeting adjourned at 10:02 a.m.



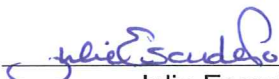
Javier Romero
Board President

9/28/11
Date



Sangeeta Bhatia
Retirement Plan Manager

9/28/11
Date



Julie Escudero
Utility Executive Secretary

9.28.11
Date