

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

**MINUTES**

**August 20, 2008**

**Board Members Present:**

Eugene Canzano, Vice President  
Ronald Vazquez, Chief Financial Officer  
Cindy Coffin, Board Member  
Michael Moore, Retiree Member

**Board Members Absent:**

H. David Nahai, General Manager  
Javier Romero, President  
Forescee Hogan-Rowles, Commissioner

**Others Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Monette Carranceja, Assistant Retirement Plan Manager  
Mary Higgins, Assistant Retirement Plan Manager  
Jeremy Wolfson, Investment Officer II  
Julie Escudero, Utility Executive Secretary  
Alan Manning, Deputy City Attorney  
Sarah Bernstein, Pension Consulting Alliance  
Neil Rue, Pension Consulting Alliance

Mr. Canzano called the meeting to order at 9:33 a.m.

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

Mr. Canzano welcomed new employee Linda Le to the Retirement Office.

**PUBLIC COMMENTS**

No public comments were received.

1. **Approval of Minutes - Audit Committee Meeting of August 15, 2007**
2. **Retirement Resolutions for August 2008**  
**Termination from Monthly Rolls as of August 1, 2008**  
**Resolution to Terminate Cuthberto Meza from September 2008 Permanent Disability Roll**  
**Termination of Hanna Champion and Katelin Tackett from the September Family Death Benefit Roll**

Mr. Moore moved approval of Items 1 through 2. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez  
Nays: None

3. **Report of Payment Authorizations for July 2008**
4. **Notice of Deaths for July 2008**

5. **Summary Investment Returns as of July 31, 2008**
  - a) **Market Value of Investment by Fund and Month as of July 31, 2008**
  - b) **Market Value of the Retirement, Death and Disability Funds and Retiree Health Care Fund as of July 31, 2008**
  - c) **Investment Returns as of July 31, 2008**
6. **Report on Status of Insurance as of July 2008**
7. **Updates from Investment Managers**
  - a) **Pacific Alternative Asset Management Company (PAAMCO) Risk Management Staff Addition**
  - b) **Fred Alger Management, Inc., Personnel Change**
8. **Governance Related Items**
  - a) **CFA Code of Conduct for Pension Board Members**
  - b) **Rule Change on Gifts of Travel**

Mr. Moore moved approval of Items 3 through 8. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez

Nays: None

9. **Annual Private Equity Program Performance Presentation, for Period Ending December 31, 2007, by Pension Consulting Alliance, Inc. (PCA)**

Mr. Canzano recognized Messrs. Tad Ferguson and Mike Moy of Pension Consulting Alliance, Inc.

The representatives reviewed the private equity program performance for the one-year period ending December 31, 2007.

Mr. Ferguson stated that \$60 million in commitments had been made to two secondary market Fund of Funds; \$40 million in commitments had been made to two primary market Fund of Funds.

Mr. Ferguson provided an overview of the market and stated the market had changed during the past year and the private equity markets had been impacted. Although fund raising and investment activity remained strong during 2007, beginning in 2008 the difficulties in the market have affected performance. He stated PCA expected a decline in overall performance due to the difficulties in the public markets and the economy.

Mr. Moy stated the buyout space is where the performance lags are most expected, and the Plan's heavy exposure will have an inverse impact.

Mr. Canzano inquired about the year-to-date IRR. Mr. Ferguson estimated as of March 31, 2008, the since-inception IRR would be 15%.

Mr. Moore inquired about guidelines set by Catalyst UK Partners, L.P., and Landmark Acquisition Korea, LLC, for limiting foreign investments. Mr. Ferguson stated the companies do not have internal guidelines restricting exposure. He explained the exposures are reflected on the overall market place. He stated the international exposure to the Plan's portfolio has increased to approximately 30%.

10. **Private Equity Commitment to Landmark Equity Partners XIV-Presentation by PCA and Landmark Equity Partners**

Mr. Canzano recognized Messrs. Francisco (Frank) Borges and Robert Shanfield of Landmark Partners.

Mr. Borges explained that Landmark Partners is one of the largest and most experienced teams in the secondary industry with 18 years of experience. He stated that Landmark has a strong track record with investors receiving a 22% net IRR. Mr. Borges stated current market conditions have created a significant supply of attractive opportunities.

Ms. Bhatia inquired if the partners on the investment committee are general partners. Mr. Borges replied the partners are all general partners in the fund.

The representatives provided the Board with a description of the Landmark investment strategy and summarized the terms of Fund XIV. A brief question and answer period followed.

Mr. Moore inquired about the amounts of transparency allowed to limited partners and the leverage used in the portfolio. Mr. Borges explained that Landmark would be happy to share information that does not violate any confidentiality agreements with sellers. He stated Landmark does not apply leverage to its funds and added PCA and Staff could review transactions after they are completed.

PCA recommended the Retirement Plan commit \$30 million and the Retiree Health Benefits Fund commit \$5 million to Landmark Equity Partners XIV, LP.

Mr. Vazquez moved approval of Resolution 09-11 authorizing \$30 million from the Plan and \$5 million from the Retiree Health Benefits Fund be committed to the Landmark fund XIV. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez

Nays: None

Mr. Canzano noted that this commitment was the first to be made on behalf of the Retiree Health Benefits Fund.

#### **11. Resolution to Place ING on Watch Status**

Staff recommended, and PCA concurred, that ING active fixed income manager be placed on watch status because of failure to meet the Plan's short-term performance criteria for the quarter ending June 30, 2008.

Mr. Moore moved approval of Resolution 09-12, placing ING on watch status. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez

Nays: None

#### **12. Recommendation to Update R-Squared Investment Guidelines for Fred Alger**

Fred Alger requested an amendment to the investment guidelines pertaining to their mandate with respect to the requirement to maintain an R-squared above 0.90. PCA recommended and Staff concurred that the Plan's investment guideline be revised to lower the R-squared requirement for Fred Alger from 0.90 to 0.75 based on the firm's portfolio construction style and strong performance.

Mr. Moore moved approval of Resolution 09-13, amending the investment policy to lower the R-squared value for Fred Alger management. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez  
Nays: None

**13. Account Structure Changes for Certain RHBF Retirement Plan Accounts Based on Product Limitations**

Mr. Neil Rue of PCA distributed a revised memo, to replace the one found on page 13.4 of the Board package, that detailed the account structure suggestions for certain Retiree Health Benefits Fund (RHBF) accounts.

Ms. Bhatia noted that as part of the transition of the Water and Power Employees' Retirement Plan's (WPERP) portfolio, Staff was in the process of establishing RHBF accounts that mirror the accounts in the Plan. She reported that the Plan's investment managers, with the exception of T. Rowe Price Emerging Markets, Pyramis International Developed Markets, Wells Capital Management High Yield, and Loomis Sayles High Yield have been able to accommodate the new accounts in the RBHF. As a result, Staff queried these managers to find the best product or account structure that would accommodate funding the RHBF. The resulting information received by Staff was then evaluated by PCA to ensure the product or restructured account was an appropriate investment.

Mr. Wolfson reviewed the recommendations and highlighted that Securities Lending services would be an additional benefit of having separate accounts for the Plan and RHBF with Pyramis, in addition to more control over governance issues. Mr. Canzano requested clarification of the separate accounts with Pyramis International Developed Markets. Mr. Wolfson explained that the Pension Plan and the RHBF will have one separate account each.

Ms. Coffin asked why the recommendation was to give Wells Capital High Yield the entire amount of assets instead of sharing them with Loomis Sayles, considering Wells Capital is currently on watch status for performance issues. Mr. Wolfson clarified that Wells Capital was initially placed on watch for organizational reasons, which was extended due to their recent underperformance. Mr. Wolfson also referred to the spread in performance between Wells Capital and Loomis Sayles (approximately 160 basis points spread from July 1, 2007 to June 30, 2008 and approximately 80 basis points spread during July 2008).

Mr. Vasquez asked if any changes would occur as a result of the new account structures with regard to reporting. Mr. Wolfson confirmed that the reporting would not change and Staff would continue having full transparency from the managers and custodian bank.

Staff brought forward Resolution 09-14 to seek Board approval for the following recommendations:

MANDATE	RECOMMENDED ACCOUNT STRUCTURE FOR RHBF ACCOUNTS
T. Rowe Price Emerging Markets	Institutional Mutual Fund
Loomis Sayles High Yield	Separate accounts for combined RHBF High Yield assets managed by Wells Capital Management
Wells Capital High Yield	
Pyramis International Developed Markets	Separate accounts (for both the Retirement Plan and RHBF assets)

Mr. Moore moved approval of Resolution 09-14. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez  
Nays: None

**14. Resolution to Approve the Annual Transfer of Funds from the Reserve for Investment Gains and Losses Account to the General Reserve Account**

Ms. Carranceja explained this transfer is required in the annual process of completing the Plan's financial statements at the close of the fiscal year. She reported that at fiscal year-end June 30, 2008, approximately \$264 million in net gains were realized. She stated that at the end of the year, a balance of approximately \$270 million remained in the Reserve for Investment Gains and Losses Account.

She indicated that the recommendation was that the Board approve the transfer of \$264 million from the Reserve for Investment Gains and Losses Account to the General Reserve Account, and she added the balance in the Reserve for Investment Gains and Losses Account will be approximately \$5.8 million after the transfer.

Mr. Moore moved approval of Resolution 09-15 authorizing the annual transfer. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez  
Nays: None

**15. Resolution to Change Derivative Policy**

Ms. Bhatia explained Staff and PCA regularly review and evaluate the Plan's investment policies for areas that warrant modification. She requested Mr. Rue address the redundancy found in the investment policy and guidelines regarding the use of derivatives.

Mr. Rue summarized the redundancy and outlined two recommendations designed to limit the amount of information released to the public and allow more flexibility within the transition processes: 1) change the investment policy language (Section 4.0) going forward to eliminate redundancy in the approval process for the use of derivatives, and 2) allow the use of derivatives in connection with the investment management transition processes.

Mr. Canzano inquired if the use of derivatives already approved within the existing policy also applied to the transition process. Ms. Bhatia stated that the existing wording of the investment policy language (Section 4.0) requires Board approval at multiple levels. She added that historically the Plan has not included derivatives within the transition management agreements.

Mr. Moore stated that the use of derivatives would be the equivalent of a leveraged investment and he felt uncomfortable investing in them. Mr. Rue clarified that the use of derivatives in these cases would serve a risk management function and not a speculative function. Mr. Rue added that Mr. Moore's concern was more of a monitoring and compliance issue. Mr. Wolfson added that the Board retains the approval of all guidelines and the change would affect all future transitions.

Mr. Moore moved approval of Resolution 09-16 to adopt the changes to the investment policy. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez  
Nays: None

Mr. Vazquez moved approval of Resolution 09-17 to adopt the use of derivative instruments during investment management transitions. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Canzano, Coffin, Moore and Vazquez  
Nays: None

**16. The Golden State's Not So Golden Goose**

Item 16 was included for reference only with no discussion.

**17. Retirement Plan Manager's Comments**

Ms. Bhatia explained the process of bringing the classification of Benefits Specialist to the Department was moving forward and added that several Retirement office employees have taken the examination. She further added that Ms. Lilly Calvache of IBEW had been instrumental in the process.

Ms. Bhatia reported the package for the Wickey amendment was scheduled to be submitted to the Board of DWP Commissioners on September 2, 2008, for approval.

She further reported that interviews to fill the Chief Investment Officer position were planned.

Ms. Bhatia stated Staff recently conducted a due diligence visit to hedge fund manager PAAMCO to observe their risk monitoring and management activities, and Staff was preparing an internal report on the findings.

She noted that Staff received the first draft of the management audit and was asked to respond by September 12, 2008.

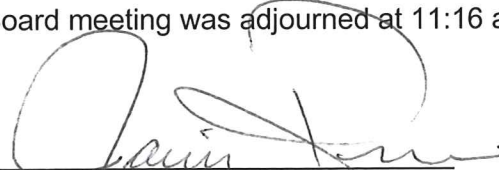
She stated testing is continuing with the Retirement office computer system, and pilot testing was scheduled for September 2008, and the project was approximately two and one-half weeks behind schedule.

Ms. Bhatia also indicated a Governance Committee meeting is tentatively scheduled for September 3, 2008.


**18. Future Agenda Items**

Mr. Canzano requested an update on the status of the additional contributions distribution options.

The Board meeting was adjourned at 11:16 a.m.

  
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JAVIER ROMERO  
President

  
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SANGEETA BHATIA  
Retirement Plan Manager

  
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JULIE ESCUDERO  
Utility Executive Secretary