

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

**MINUTES**

**February 18, 2009**

**Board Members Present:**

Javier Romero, President  
Eugene K. Canzano, Vice President  
Forescee Hogan-Rowles, Commissioner  
Cindy Coffin, Board Member  
Michael Moore, Retiree Member  
Jeff Peltola, Acting Chief Financial Officer

**Board Members Absent:**

H. David Nahai, General Manager

**Staff Present:**

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

**Others Present:**

Michael Wilkinson, Deputy City Attorney  
Neil Rue, Pension Consulting Alliance

President Romero called the meeting to order at 9:40 a.m. following the Pledge of Allegiance.

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

Peter Cahill and Carl Wilk, from NorthPointe Capital, presented a request to address the Board, in conjunction with Item 17, at the time the item was up for discussion.

No other public comments were received.

- 1. Approval of the January 21, 2009, Regular Meeting Minutes**
- 2. Termination from Monthly Rolls**
  - Termination from the February 1, 2009, Retirement Roll**
  - Termination of Kelsey Darden from March 2009 Family Death Benefit**
  - Termination of Lorraine A. Girard from the Feb. 2009 Survivorship**
  - Termination of Rebecca McKenzie from the Feb. 2009 Survivorship**

Ms. Hogan-Rowles moved for approval of Items 1 and 2; seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, Coffin, Hogan-Rowles, and Peltola  
Nays: None

- 3. Report of Payment Authorizations for January 2009**
- 4. Notice of Deaths for January 2009**

5. a) **Summary of Investment Returns as of January 31, 2009**  
b) **Market Value of Investments by Fund and Month as of January 31, 2009**  
c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of January 31, 2009**
6. **Report on Status of Insurance as of February 5, 2009**
7. **Report on Organizational Changes at INVESCO**
8. **Notice of Changes to Fisher Lynch Limited Partnership Agreement**
9. **Update on Election of Active Member Representatives to the Retirement Board**
10. **Report on Attendance at the NCPERS Legislative Conference in Washington, DC**

Ms. Bhatia reported she attended the National Conference on Public Employees Retirement Systems (NCPERS) Legislative Conference in Washington, DC, from February 1- 3, 2009, and presented an overview of what was discussed. Mr. Romero requested that Ms. Bhatia keep the Board informed of the status and progress of the Troubled Asset Relief Program (TARP) bill to be presented to the Senate.

Mr. Canzano moved that Items 3 through 10 be received and filed; seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Moore, Hogan-Rowles, and Peltola  
Nays: None

**11. Presentation by Wells Capital Management - Annual Performance Review as of January 31, 2009**

Mr. Romero acknowledged Stephen Scharre, Senior Relationship Manager, and Niklas Nordenfelt, Senior Portfolio Manager.

Mr. Scharre gave a brief overview of Wells Capital Management, an institutional investment arm of Wells Fargo Bank, and noted the firm had \$250 billion in accumulated assets under management at the end of 2008. He reported that on December 31, 2008, Wells Fargo Bank merged with Wachovia Bank resulting in the acquisition of Wachovia's investment firm Evergreen Investments. He reported Wells Capital and Evergreen Investments were still separate firms with independent Securities and Exchange Commission (SEC) registration; however, once the firms merged, Wells Capital's senior management would take over the combined organization. Ms. Hogan-Rowles inquired of Wachovia's portfolio status at the time of the merger and Mr. Scharre explained Wachovia had large write-offs when purchased by Wells Fargo. He explained each investment firm had its own philosophy and the merger would broaden the number of products offered.

Mr. Scharre reported the Plan's portfolio outperformed its benchmark by slightly over 500 basis points and as of January 9, 2009, the portfolio was up 5.25 percent on a net basis and was close to 600 basis points over the benchmark on a gross basis. He indicated that compared with other managers, the Plan's portfolio performed better than 61% of its peers.

Mr. Nordenfelt commented on the Plan's portfolio performance which outperformed the benchmark by 5 percent. He explained their strategy was to identify the best credits and avoid those that were over-leveraged and risky.

Discussion ensued regarding defaults and default rates. In response to a question from Mr. Moore, Staff indicated the Board was immediately notified of any defaults in the portfolios.

Mr. Moore asked what defaults Wells Capital experienced last year and Mr. Nordenfelt explained that the default rate was 4.5 to 5 percent for the bank loan and high yield markets but it was probably only one percent for the Plan's portfolio.

Mr. Romero asked about Wells Capital's personnel strategy to which Mr. Scharre responded that some overlap might result from the integration with Evergreen. He added both teams had good records and were well-respected and no indication had been received that either team should be concerned at this time.

Mr. Romero stated he believed Wells Fargo had always maintained a very respectable reputation, but he thought the recent news regarding its formerly scheduled conference in Las Vegas was inappropriate, especially during this tough economic environment, and had tarnished the company's reputation. He asked the presenters to convey his concerns to Wells Fargo, which they agreed to do. Mr. Romero later emphasized this was his personal opinion, and it did not reflect the opinion of the Board.

In reference to seeking survivor companies in which to invest, Mr. Peltola asked what type of markets or companies were being targeted. Mr. Nordenfelt indicated they were interested in basic companies such as health care, energy, utilities, and cable.

Referring back to Wells Fargo and the scheduled conference in Las Vegas, Ms. Hogan-Rowles stated she disagreed with Mr. Romero's opinion and believed just because the economy was down, spending should not stop. She said her first thought was that Wells Fargo must have received good room rates considering the current Las Vegas' economy, although she added that she was not saying it was right. She stated they were only hearing what the media provided and she believed it probably was not all that the media made of it. According to her, consideration should be given to reasonable spending without overdoing it, and it was a company's decision as to how to spend its profits as long as it was acting responsibly and reasonably.

Ms. Hogan-Rowles asked what top three items the Board should look for with regard to performance, and Mr. Nordenfelt suggested the Board be aware of significant increases in volatility, significant increases in defaults, and mass departures.

## **12. Presentation by Loomis Sayles - Annual Performance Review as of January 31, 2009**

Mr. Romero acknowledged Stephanie Lord, Vice-President of Loomis Sayles, and portfolio manager.

Ms. Lord gave a brief introduction of her background and position with Loomis Sayles, and then presented an overview of the company. She explained they were hired to be a complement to the Plan's other high yield manager and they utilize a more aggressive approach. She reported Loomis Sayles had no exposure to sub-prime and they had no plans for any lay-offs. She reported the firm's assets as of the end of January were \$115 billion, with \$95 billion in fixed income and \$14 billion in high yield.

Ms. Lord reviewed the market performance and default rates. She proceeded to compare the Plan's portfolio performance with the benchmark and stated the portfolio was down by 11 percent for the third quarter and down by 18.7 percent for the fourth quarter and that overall, the Plan's gross

investment returns for 2008 were negative 28 percent versus the benchmark's negative 26 percent. She explained this was largely due to the Plan's exposure to Fannie Mae and Freddie Mac and its limited exposure to Lehman. She added the fund was up in January by 5.6 % and up by 1.8% by mid-February; however, she believed high yield, especially in a more aggressive strategy, would probably continue to be bumpy until possibly early 2010, when the economy starts to recover.

The Board recessed at 11:14 a.m. and reconvened at 11:27 a.m.

### **13. Presentation by Pension Consulting Alliance, Inc. - Quarterly Performance Review as of December 31, 2008**

Mr. Romero acknowledged Neil Rue from Pension Consulting Alliance, Inc. (PCA).

Mr. Rue reported the total portfolio outperformed its policy benchmark by 110 basis points for 2008. He noted the portfolio was down 24.9 percent gross-of-fees, and down 25.2 percent net-of-fees, but added these were relatively good numbers for the period. He proceeded to review the market performance, equity returns, and the Plan's portfolio. He identified the portfolio's aggregate total was \$6.1 billion which consisted of \$5.4 billion in the retirement fund, \$608 million in the health fund, and approximately \$50 million in the combined death and disability funds.

Mr. Rue also discussed Staff's and PCA's decision not to rebalance the portfolio in accordance with the policy due to the current market dynamics.

Referring to the previous presentation by Loomis, Ms. Coffin inquired how Loomis' performance was measured against their benchmark. Mr. Rue clarified that Loomis is an active manager whose expertise is to move across a variety of segments which could result in considerable differences between their performance and benchmark. In reference to Mr. Moore's comment regarding style drift, Mr. Rue stated Staff regularly monitors policy guidelines. Mr. Wolfson reiterated that the Investment Staff monitors style drift quarterly.

In response to Mr. Moore's question regarding the index, Mr. Rue explained that PCA selected a diversified index for hedge fund of funds, but they would also include a more principal oriented benchmark to accommodate Mr. Moore's request.

### **14. Discussion of Investment Transition Plan**

Ms. Bhatia provided background information and explained that PCA conducted an asset liability study to assess the effectiveness of the existing asset allocation structure considering investment return and the risk objectives, and to determine if the same investment strategy should be adopted for both the Retirement Plan portfolio and the Health Plan portfolio. She noted the Board approved a new asset allocation structure in 2008. She added that a four-year transition plan was adopted to implement the new allocation plan; however, the Board more recently decided to re-evaluate the transition plan and the asset allocation structure as a result of the current market volatility.

Mr. Rue presented an updated evolving transition policy which proposed slowly moving away from fixed income and into equities. Mr. Peltola voiced his concerns with reducing fixed income, and Mr. Rue explained the reasoning behind that decision. He also explained the development of the Real Return asset class and the split pertaining to alternative investments.

Mr. Rue suggested they conduct another asset liability study in approximately two years instead of four years as initially recommended if the Board's tolerance level for risk had changed. Extensive

discussion ensued whereupon it was suggested the fixed income exposure be changed to 40% (instead of 37%) and the international equity exposure be changed to 16% (instead of 19%). It was further decided that Mr. Rue would bring back a memo at the next meeting summarizing this discussion and presenting additional options available for discussion.

The Board recessed at 12:51 p.m. and reconvened at 1:01 p.m. with Messrs. Romero, Canzano, Moore, and Peltola and Ms. Coffin present.

#### **15. Discussion of a Global Inflation Linked Securities Mandate**

Mr. Wolfson provided background on this item and explained the allocation to Global Inflation Linked Securities (GILS) was a result of the new asset allocation structure adopted by the Board in 2008. He explained this would be an actively managed mandate and would provide a broader scope by not limiting the allocation to just U.S. Treasury Inflation-Protected Securities (TIPS). He noted that only approximately two percent of the Plan's funding would be allocated to GILS and, based on current valuations, now might be a good time to invest. In response to a comment by Mr. Moore, Mr. Rue indicated that PCA will explore both active and passive strategies.

Mr. Canzano moved for approval of Resolution No. 09-74 to authorize a search for a Global Inflation-Linked Securities (GILS) manager; seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, Coffin, and Peltola

Nays: None

#### **16. Discussion of INTECH's Investment Performance**

Mr. Wolfson reported that INTECH was placed on watch status in December 2007 for failing to meet the short term investment performance criteria and, as of December 31, 2008, INTECH underperformed its benchmark in eight out of the previous twelve months. Ms. Coffin asked what was considered a reasonable amount of time for an investment company to show improvement and Mr. Wolfson replied six to twelve months. Mr. Rue added INTECH's overall performance since inception was at the benchmark, and PCA and Staff were recommending extending the watch status for another six months. He further added that if INTECH still showed no improvement, they would recommend a search for a new large cap growth manager.

In response to Ms. Coffin's question as to why Staff and PCA recommended an extension of the watch period compared to the recommendation regarding NorthPointe (per the next item), Mr. Rue explained the severity and duration of NorthPointe's underperformance was greater.

Mr. Moore moved for approval of Resolution No. 09-75 to extend INTECH's watch status; seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore

Nays: None

#### **17. Discussion of NorthPointe Capital's Investment Performance**

Mr. Romero acknowledged Peter J. Cahill and Carl P. Wilk from NorthPointe Capital. Messrs. Cahill and Wilk addressed the Board as Public Comments.

Mr. Cahill, Chief Investment Officer and co-founder of NorthPointe Capital, explained the challenges that affected their performance, and he asked the Board to consider allowing NorthPointe to service the Plan for a full investment cycle and added he anticipated significant improvement in the investment performance. Mr. Wilk, Portfolio Manager, apologized for being unable to attend the June 2008 meeting and assured his attendance at future meetings should they remain onboard.

Ms. Hogan-Rowles re-entered the meeting at 1:14 p.m.

Mr. Wilk, likewise, explained the situations that adversely affected their performance, and he reviewed the handouts they provided. He reiterated Mr. Cahill's appeal for the Board's consideration to retain their services for a full business cycle and pledged above-average returns over the duration.

Mr. Wolfson explained why PCA and Staff were recommending the termination of NorthPointe. He provided an overview of NorthPointe's performance from September 2006 through December 2008, and stated that the company was placed on watch status in February 2008 for failing to meet the Plan's short-term performance criteria. He noted that while on watch status, their performance continued to deteriorate and they showed no signs of recovery.

Mr. Rue added that although NorthPointe had only been onboard less than a full cycle, they had underperformed the entire time, and PCA had little confidence in their future performance.

Mr. Moore moved for approval of Resolution No. 09-76 to terminate the contract with NorthPointe Capital; seconded by Ms. Hogan-Rowles and carried unanimously after the following vote:

Ayes: Romero, Canzano, Moore, Coffin, Hogan-Rowles, and Peltola

Nays: None

#### **18. Discussion of the Retirement Office Budget for Fiscal Year 2009-2010**

Ms. Carranceja reviewed the proposed budget for fiscal year 2009-2010 and explained that the Retirement Office was requesting eight additional positions to include five positions for the Benefits Group, two positions for the newly-formed Scanning Unit, and one position for the Investment Section.

Ms. Hogan-Rowles asked if participating in the discussion of this item would be considered a conflict of interest for Mr. Peltola, and Ms. Bhatia indicated it would not. Mr. Peltola added that this was a part of the budget process.

Mr. Canzano asked for clarification of the training cost and Ms. Carranceja explained it was for mid-career and early career pre-retirement seminars.

Mr. Peltola asked for an explanation for the substantial increase in travel, and Ms. Carranceja explained it was for increased on-site due diligence visits. In addition to the required due diligence trips, Ms. Bhatia pointed out the management audit recommended sufficient training be provided to Staff and that would result in an increase in the appropriation for travel. She added the required training also applied to the Board members and the City Attorney.

Mr. Peltola also asked for the current staffing occupancy, and Ms. Bhatia replied the Retirement Office should be up to full occupancy in a few weeks. She added the Retirement Office was using several limited positions which are considered temporary, and she explained that it would be advantageous to make those positions permanent to retain the knowledge and experience of those employees.

Mr. Canzano moved for approval of Resolution No. 09-77 authorizing the budget for Fiscal Year 2009-2010; seconded by Mr. Moore and carried after the following vote:

Ayes: Romero, Canzano, Moore, Coffin, and Hogan-Rowles  
Nays: Peltola

#### **19. Discussion of the Meeting Time for the Retirement Board**

Mr. Romero voiced his opinion that the meeting schedule should not be changed to accommodate one individual. Ms. Coffin also expressed her agreement with Mr. Romero's perspective. Ms. Hogan-Rowles stated her view that changing the starting time from 9:30 a.m. to 10:00 a.m. would help accommodate the General Manager's schedule. Mr. Moore also commented that he would like for the General Manager to attend. Ms. Coffin asked the reason for the General Manager's inability to attend at 9:30 a.m. Ms. Escudero explained the General Manager's assistant had indicated Mr. Nahai was frequently required to attend meetings with the Mayor and those were normally around 9:00 a.m.

Ms. Hogan-Rowles moved to adopt the new meeting time of 10:00 a.m.; seconded by Mr. Moore and carried after the following vote:

Ayes: Moore, Hogan-Rowles, and Peltola

Nays: Romero and Coffin

Abstain: Canzano

Ms. Bhatia requested the City Attorney to verify how an abstention would be considered, and Mr. Wilkinson indicated it would be counted as a "Yes" vote

It was also noted that the new time would be effective beginning with the March 4 meeting.

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

Ms. Bhatia clarified that signatures to nominate a candidate in the upcoming election for the active employee members to the Board of Administration may come from any group and an employee may sign more than one petition. She stated that e-mail notices would go out by the end of the week letting employees know they will receive bulletins both at their home and in their workplace.

Ms. Bhatia revisited the growing concern for office space. She reported she would be meeting with Mr. Peltola on that matter at the end of the meeting and would update the Board at the next meeting.

Ms. Bhatia reported on the recent problems experienced with the FedEx delivery of the Board agenda packages. She explained the Retirement Office paid extra for Saturday delivery; however, FedEx had been delivering them on Monday and often also delayed delivery by requesting a signature when no signature was required. She noted Staff was following up to resolve this matter. She added that testing for the Penfax system was proceeding well and would generate considerable overtime.

Ms. Bhatia also commented on Mr. Moore's recent concern regarding tax issues and she indicated Staff was working with a tax attorney regarding different Plan provisions and also recent regulation changes that may impact the Plan.

Mr. Romero clarified that his earlier comments regarding Wells Fargo's proposed trip to Las Vegas were based on comments from the Senate sub-committee meeting held the past weekend and from media reports, and he apologized to Wells Fargo if he was mistaken and added that his comments were his opinion and not the Board's.

## 21. Future Agenda Items

Ms. Bhatia noted the discussion of the Transition Plan would be brought back to the Board at the next meeting.

Mr. Moore requested the management audit be presented to the Audit Committee, and Ms. Bhatia indicated Staff had not yet received the final report. Ms. Hogan-Rowles asked for an update on the asset liability study performed by EFI Actuaries and PCA, and Ms. Bhatia stated copies would be distributed when this was brought back to the Board.

The Board meeting adjourned at 1:53 p.m.

  
\_\_\_\_\_  
JAVIER ROMERO  
President

  
\_\_\_\_\_  
SANGEETA BHATIA  
Retirement Plan Manager

  
\_\_\_\_\_  
JULIE ESCUDERO  
Utility Executive Secretary