

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

**MINUTES**

**September 9, 2009**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member

**Board Members Absent:**

H. David Nahai, General Manager  
Jeff Peltola, Chief Financial Officer  
Appointed DWP Commissioner - Vacant

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Mary Higgins, Asst. Retirement Plan Mgr.  
Monette Carranceja, Asst. Retirement Plan Mgr.  
Scott Vargas, Senior Investment Officer  
Julie Escudero, Utility Executive Secretary

**Others Present:**

Michael Wilkinson, Deputy City Attorney  
David Sancewich, Pension Consulting Alliance, Inc.  
Sarah Bernstein, Pension Consulting Alliance, Inc.

President Romero called the meeting to order at 10:07 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. Approval of Minutes for August 5, 2009, Regular Meeting**

*Mr. Moore moved for approval of Item 1; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

**2. Report from City Attorney on National Association of Public Pension Attorneys Education Conference in Portland, Oregon**

**3. Report on Organizational Changes at Oaktree Capital Management**

*Mr. Moore moved for approval of items 2 and 3 as Received and Filed; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

**4. Annual Presentation for Wells Capital Core Fixed Income Mandate**

Mr. Romero acknowledged Sandra M. Willen, Managing Director and Troy Ludgood, Senior Portfolio Manager and Co-Head from Wells Capital Management.

Ms. Willen provided information about their firm, their investment philosophy and process investment strategy, and the status of the Plan's portfolio.

Ms. Willen reported that Wells Capital has managed the Plan's portfolio since July 2004 with an initial funding of \$929.2 million. She indicated they manage assets for the retirement fund, as well as the health plan, and they also manage the Plan's death and disability funds in their com-mingled vehicle. She stated the focus of this presentation would be on the retirement fund portfolio and reported that as of the end of the 2009 fiscal year, the market value of the fund was just over \$1.2 billion, an increase of approximately \$299 million to the initial funding.

She summarized the performance since inception and noted the retirement portfolio generated a return of 5.78% which is an average net-of-fees return of 77 basis points more than the index.

Mr. Ludgood reconfirmed how they manage the portfolio. He indicated their investment philosophy has remained consistent; they are bottom-up managers and combine the bottom-up security selection with active, relative value trading and place high importance on risk management, with a bias towards liquid securities.

Mr. Ludgood reviewed the portfolio's performance and indicated it is positioned conservatively with approximately 5% overweight in asset-backed securities, a slight overweight of approximately 1% in the commercial mortgage-backed securities, and an overweight of 6% in the corporate bond area. In response to Mr. Moore's question regarding the risks related to being overweight in asset backed securities, Mr. Ludgood stated they stress test each trust separately and favor those that show undervalue.

#### **5. Presentation by Pension Consulting Alliance, Inc., on Hedge Fund of Funds-Quarterly Report as of June 30, 2009**

Mr. Romero acknowledged David Sancewich and Sarah Bernstein from Pension Consulting Alliance, Inc. (PCA).

Mr. Sancewich reviewed the finalized numbers and indicated the total portfolio was up 1.3% for the month, up 4.6% year-to-date through June 2009, down 13.9% for the one-year primarily due to the market crises in 2008, and down 1.8% percent since inception. He noted PAAMCO was up 13% and Aetos was up 10% through August 2009. He added the portfolio outperformed the median fund over all time periods since inception.

Mr. Sancewich noted they were closely watching the 12-month rolling beta analysis because of an increase compared against the Barclay's Aggregate Index largely coming from PAAMCO. Mr. Moore asked why this is important, and Mr. Sancewich commented that a high Beta means that we are paying the managers for having Beta instead of Alpha, in which case it would be better to have Index Funds.

He also reviewed the individual performance for PAAMCO and Aetos. He recounted that PAAMCO and Aetos were hired for different reasons and continue to complement each other; PAAMCO is more aggressive and performs better when the market is up and Aetos performs better when the market is down. He reported both managers were currently on watch and have both improved since being placed on watch. He noted Aetos was up 3.3% and PAAMCO was up 5.9% and said if they continue to improve during the next review period they might possibly be removed from watch.

## **Public Comments (Reopened)**

Mr. Romero reopened Public Comments and acknowledged Zeyna "Jenny" Anica-Gonzalez who was hired as a Clerk Typist in the Disability Section of the Retirement Office effective August 31, 2009.

### **6. The Boston Company International Developed Markets Equity Manager; Discussion of Performance**

Mr. Vargas reported The Boston Company (TBC), one of the Plan's developed international managers, was hired by the Board in March 2005. He noted their initial funding was \$270 million and, as of July 31, 2009, the account was valued at \$283.6 million. He reported the Board placed TBC on watch status on August 15, 2007, due to organizational changes. He added the Board reaffirmed their watch status on February 4, 2009, due to further organizational changes involving significant staff reductions including investment and client service professionals; however, over the past year, TBC outperformed their benchmark by over 1,000 basis points, and staff was now recommending they be removed from watch status.

*Mr. Moore moved for approval of Resolution No. 10-19 to remove The Boston Company from watch status; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

### **7. The Boston Company Emerging Markets Equity Manager; Discussion of Performance**

Mr. Vargas reported the Board hired The Boston Company Emerging Markets Equity Manager (TBC EM) in March 2005 with an initial funding of \$50 million; as of July 2009, its market value was \$83.8 million. He noted the Board placed TBC EM on watch status on February 4, 2009, due to significant organizational changes involving staff reductions. He further noted that despite staff reductions, TBC EM has delivered positive relative returns over its benchmark and, as a result, both Staff and PCA recommend TBC EM be removed from watch.

*Mr. Moore moved for approval of Resolution No. 10-20 to remove The Boston Company Emerging Markets Equity Manager from watch status; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

### **8. Consideration of Designation of Trustee for Incompetents for Sarah and Jonathan Hightower**

Ms. Higgins reported Manuel P. Salinas has requested he be named Trustee for his niece and nephew, Sarah and Jonathan Hightower, both of whom were eligible to receive Family Death Benefits and Supplemental Death Benefits. Ms. Higgins indicated Mr. Salinas is the brother of Ruth Hightower who passed away on June 12, 2009, and Mrs. Hightower's Last Will and Testament names him as guardians for her minor children.

Ms. Higgins indicated Staff recommends the Board designate Mr. Salinas as the Trustee for Sarah and Jonathan Hightower under the provisions of Plan Section III H, for six months starting September 9, 2009.

In response to Mr. Moore's inquiry if minor children were considered incompetents under the law, City Attorney Representative Mike Wilkinson stated the terminology fits into the language of the Plan's provision for incompetents which has no separate reference pertaining to minors.

*Mr. Moore moved for approval of Resolution No. 10-21 to designate Manuel P. Salinas as the Trustee for Sarah and Jonathan Hightower; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

## **9. Report on Asset Smoothing**

Ms. Higgins explained that in March 2009 the Board reviewed a report from Staff and a report from the Plan's actuary, The Segal Company, regarding asset smoothing and trends which covered the mechanics of asset smoothing and market value corridors. She added Staff was instructed to monitor trends and report back to the Board on actions taken by the City's other two pension plans.

Ms. Higgins noted Staff consulted with fiduciary counsel, Joe Wyatt, who suggested the Board vote on whether to continue with the Plan's current practice.

Ms. Higgins noted Staff recommends approving the Plan's current program for this actuarial valuation and include a study of asset smoothing as part of the experience study which will probably be conducted in the summer of 2010.

Ms. Bhatia pointed out that approving the resolution would reaffirm the current smoothing asset methodology and approve a component on the impact of asset smoothing on the Plan in next year's experience study, at a cost not to exceed \$35,000.

*Mr. Moore moved for approval of Resolution No. 10-22 to designate the asset smoothing methodology for Retirement Plan valuations; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

## **10. Discussion of Update on Governance Issues**

Ms. Bhatia explained this item was placed on the agenda as a follow up to discussion that occurred at the August 19, 2009, Board meeting at which Robert Klausner, from Klausner & Kaufman, presented his legal opinion regarding who specifically has the authority to administer the retirement system and determine the budget and staffing levels. Ms. Bhatia reported the Plan's City Attorney liaison had no update at this time. She also noted she had hoped to have an update from Mr. Peltola regarding feedback from the Department's City Attorney; however, because Mr. Peltola was absent, no update was available at this time.

Mr. Romero suggested this item be tabled until the next meeting.

- 11. a) Summary of Investment Returns as of July 31, 2009**
- b) Market Value of Investments by Fund and Month as of July 31, 2009**
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2009**

This item was for reference only and included no discussion.

12. a) "CalPERS Takes Legal Action on Furloughs" – CalPERS Office of Public Affairs  
b) "The Securities and Exchange Commission Post-Madoff Reforms"

This item was for reference only and included no discussion.

### 13. Retirement Plan Manager's Comments

Ms. Bhatia reported the transition of funds with respect to the new asset allocation structure has begun and is progressing smoothly; a post transition report will be provided to the Board once PCA completes its review.

She reported staff has received responses to the three Requests for Proposals (RFPs) for global inflation-linked securities; small-cap mandate; and fixed income, and a final list of candidates will be released next week followed by scheduling of the interviews at the Board level. She added Staff is preparing to release an RFP for a large-cap growth equity manager to replace INTECH.

Regarding the new system, Ms. Bhatia reported the old Legacy system had now been replaced by Penfax, and it is currently being utilized by the Membership Section; however, some issues still need to be resolved. She indicated specifications are being developed for the module to replace the retirement automated payroll system, and the member statements required by the Plan are expected to be released via Penfax by the end of September.

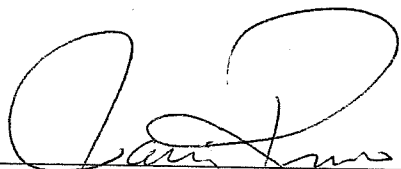
Ms. Bhatia mentioned she attended a Joint Labor Management Committee (JLMC) meeting last week. The JLMC consists of members of the Plan's management and Staff and will meet on a monthly basis.

Ms. Bhatia noted the revised Board meeting schedule might result in quorum concerns in November and possibly December due to holidays. She recommended one solution would be to hold the Board meetings on alternate Wednesdays for November.


### 14. Future Agenda Items

Mr. Romero request information on the monthly employee transfers into and out of the Department and whether the City is matching the contributions.

The meeting adjourned at 11:02 a.m.

  
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JAVIER ROMERO                      11/4/09  
President                                      Date

  
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SANGEETA BHATIA                      11/4/09  
Retirement Plan Manager                      Date

  
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JULIE ESCUDERO                      11.4.09  
Utility Executive Secretary                      Date