

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

**MINUTES**

**October 14, 2009**

**Board Members Present:**

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

**Board Members Absent:**

Jeff Peltola, Chief Financial Officer  
S. David Freeman, Interim General Manager  
Appointed DWP Commissioner - Vacant

**Staff Present:**

Monette Carranceja, Asst. Retirement Plan Mgr.  
Mary Higgins, Asst. Retirement Plan Mgr.  
Jeremy Wolfson, Chief Investment Officer  
Erlinda Pabon, Senior Clerk Typist

**Others Present:**

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

President Romero called the meeting to order at 10:00 a.m. following the Pledge of Allegiance.

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

**Public Comments**

No public comments were received.

**1. Approval of Minutes for the September 9, 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 on BlackRock-Barclays Global Investors Merger**

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

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

**3. Annual Presentations by International Developed Mandate Managers**

**a) Invesco Global Asset Management, Inc.**

Mr. Romero acknowledged Michael Bowman, Erik Granade, and Douglas Gooding from Invesco Global Asset Management, Inc. (Invesco). Mr. Bowman thanked the Board and introduced Mr. Gooding and Mr. Granade.

Mr. Gooding, Head of Client Portfolio Management, stated the Invesco global equity team has remained unchanged from last year. He added the investment philosophy and process similarly has remained unchanged and continues to focus on individual stock selection and more traditional valuations statistics such as price to earning/price to book ratios.

Mr. Granade reviewed the Plan's portfolio performance as of September 25, 2009. He stated the portfolio has outperformed the benchmark since September 2008 but has trailed in the economic recovery with year to date returns, on an after-fee basis, up 27.5% versus the bench-mark which was up 31%. He explained the portfolio has lagged due to the shortfall within the financial sector and also an underweight to international small caps, which was not fully implemented until mid-year and is now outperforming. He added the performance numbers do not include the Retiree Health Benefits Fund because it was not funded until mid-September.

Mr. Granade noted the portfolio is overweight in the energy and technology sectors and conservatively positioned in consumer stocks. Regarding geographic exposure, he indicated the portfolio has exposure to Europe and is underweight in exposure to Japan.

Mr. Moore asked for a further explanation of why the Plan's portfolio with respect to energy, financials, and telecommunications had a lower rate of return compared to the index. Mr. Granade responded that within the financial sector, the companies that came close to failure but survived have rebounded very strongly. In comparison, he indicated the companies held by Invesco had trailed off the lows but have improved with the market recovery and have now begun to outperform. He explained the telecommunication companies that have performed best in the index were the ones with the most debt and riskier investments while the telecom companies held by Invesco are more stable and more attractive. On the energy side, he explained the companies most exposed to commodity price recovery have performed best. He noted the holdings by Invesco are more attractive regardless of energy prices.

In reference to the portfolio's outperformance in the consumer discretionary sector, Ms. Coffin asked Mr. Granade if the consumer discretionary sector was improving. Mr. Granade explained opportunities in that sector should be good longer term in terms of relative value, but consumer staples will likely take longer to recover and may experience periods of weakness. He stated Invesco will probably be defensively postured within consumer staples in general.

#### **b) The Boston Company Asset Management, Inc.**

Mr. Romero acknowledged John D. Havens and William J. Adams from The Boston Company (TBC).

Mr. Havens stated he and Mr. Adams were present to report on the Plan's developed market, non-U.S. portfolio. He provided an overview of TBC and reported the firm underwent a significant restructuring in January 2009; however, the investment team was unaffected. He indicated TBC currently manages \$35 billion in total assets under management and there was no change on the investment team.

With respect to the investment performance as of August 31, 2009, Mr. Haven reported the portfolio outperformed the benchmark for the one-year period by approximately 1,200 basis points and, since-inception, the portfolio was back to slightly below the benchmark in terms of net performance.

Mr. Adams provided a more comprehensive review of the portfolio's performance through various market conditions and reported the absolute returns were troubling through the market conditions of 2008, but the relative returns were exceptional. He explained the portfolio is structured to

typically respond favorably in the strong quarters preceding a decline, and it has been repositioned and is taking on more risk as the economy has recovered.

Mr. Adams reviewed the country and sector year-to-date attributions and noted the top country contributors were Canada and Japan and the biggest detractor was the United Kingdom. He indicated the top sector contributors were utilities, consumer discretionary, and consumer staples, whereas energy and financials were the main detractors.

Mr. Adams briefly reviewed the stock contributors and noted the portfolio is fairly well diversified, with exposure to some of the financials that were hurt by the 2008 market and which have now recovered, and with some cyclical exposure to financial leveraging companies which are making a comeback.

Mr. Moore requested additional information on how the portfolio's assets of approximately \$301 million, a percentage of the \$1.4 billion in the same strategy, fit into TBC's total assets under management. Mr. Adams and Mr. Havens explained the \$1.4 billion is a portion the \$6 billion in the Large Cap Developed Non-U.S. Equity mandate.

### **c) Pyramis Global Advisors Trust Company**

Mr. Romero acknowledged Arthur J. Greenwood and Brian Hoesly from Pyramis Global Advisors.

Mr. Greenwood presented a brief background of the firm. He noted over the two-year, three-year, four-year, and since-inception periods, the portfolio added value on both a gross and net basis against the core benchmark and the style specific growth oriented benchmark. He stated over the past year the portfolio continued to outperform the style specific growth benchmark but moderately lagged the core benchmark.

Mr. Hoesly identified the investment team and noted the team and the investment process have remained unchanged since the firm's last presentation, with the exception of one new member joining the team in January 2009. He noted the investment parameters have not changed since inception, and he explained the firm's philosophy is to look for high quality companies with fundamental strength and transparent and sustainable earnings.

Mr. Hoesly reviewed the portfolio's performance and noted it had been defensively positioned and performed well on a relative basis through the third and fourth quarters of 2008 and slightly underperformed in the first quarter of 2009. He noted they repositioned the portfolio in April to be less defensively positioned as a result of the market value change, and they continue to be sector neutral.

Mr. Hoesly reported the portfolio had been invested in a commingled vehicle for the seven months preceding January 31, 2009, and on January 31, 2009, they transitioned into a separately managed portfolio. He reported the portfolio outperformed the benchmark during the seven-month period prior to January 2009, and the top ten contributors tended to be defensive, high quality companies and well capitalized financials; the top detractors were economically sensitive companies and riskier financials.

With regard to the five-month period ending June 30, 2009, Mr. Hoesly noted the top contributors were financial services companies, and the detractors were several of the contributors of the prior seven months. He also reviewed the current top ten active holdings.

With reference to geographic exposure, Mr. Hoesly noted as of June 30, 2009, the portfolio was underweight in Japan and modestly underweight in Canada; however, the Canadian exposure has increased and is now slightly overweight.

Mr. Moore commented on the small standard deviation of 5.83%, wherein Mr. Hoesly indicated that 5.83% is a relatively aggressive standard deviation for Pyramis. Mr. Moore asked for more information on why stock selection was the biggest variance with respect to attribution. Mr. Hoesly explained their parameters limit their sector bets and reiterated that Pyramis keeps its focus on high quality, transparent, sustainable earnings and growth going forward twelve to eighteen months. *(Note: After the meeting, Mr. Hoesley verified that the standard deviation is, in fact, approximately 24%.)*

#### **4. Discussion of Transition; and Possible Action-Report by Pension Consulting Alliance, Inc.**

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

Mr. Rue provided a summary of the Russell Investment (Russell) transition project. He reported approximately \$500 million in the Retirement Fund (10% of the portfolio), and approximately \$331 million in the Health Care Fund (50% of the portfolio) were reallocated to adjust for the new asset allocations. He indicated the transition was successful and performed better and cost less than expected. He reported the strategy added value to the portfolio during the transition.

In response to Mr. Moore's inquiry of what other transitions are pending, Mr. Wolfson explained the Board is scheduled to interview candidates for the Small Cap mandate manager on November 4, and that portfolio will transition out of the current temporary passive account to that new manager once selected. He stated PCA is currently reviewing the RFP responses for the Large Cap manager, and those interviews will be scheduled in the near future. He further stated the transition of funds to the recently hired Global Inflation Linked Securities manager is also pending.

Mr. Moore explained his reason for asking was to ensure that the list of candidates for the small cap manager remained available should the Board be disappointed with the additional performance period given to Paradigm.

Ms. Coffin asked how long those RFP responses could remain valid, and Mr. Wilkinson explained the RFP responses could remain accessible for a few months; however, beyond that, a new RFP process might be required.

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

Ms. Carranceja stated Mr. Peltola was scheduled to present feedback from the Department's City Attorney regarding this item; however, due to his absence, this item would be brought back to the Board at the next meeting.

Ms. Coffin asked the date of the next regular meeting, and staff responded a special meeting to conduct interviews is scheduled for November 4, and the next regular meeting is scheduled for November 18.

Mr. Romero requested this item remain on the agenda until it is settled.

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

This item was for reference only and included no discussion.

**7. "Capital Dynamics Revamping HRJ" – *Private Equity Insider*, September 23, 2009**

This item was for reference only and included no discussion.

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

Ms. Carranceja reported the annual statements were mailed out two days ahead of the regular schedule.

With reference to systems implementation, Ms. Carranceja indicated the calculations for retirement benefits, retirement projections, death benefits, and permanent total disability payments need to be implemented. She noted staff is proceeding with data cleanup and concurrently evaluating a new version of Penfax prior to putting it into production. She also stated IBM is providing 180 hours of staff training to develop a template to promote scanning efficiency.

Ms. Carranceja reported the City and, accordingly, the Department, is undergoing two bank transitions: from Bank of America to Wachovia Bank for disbursements, and from Bank of America to Wells Fargo Bank for deposits. She stated the target date for the Wachovia transition by the Retirement Office is expected to take place sometime in October.

She further reported the Plan's auditors, Simpson & Simpson, will make a presentation to the Audit Committee on October 28, and the Plan's actuary, The Segal Company, will present the actuarial reports at the October 28 Regular Board Meeting.

**9. Future Agenda items**

No future agenda items were requested.


The meeting adjourned at 11:37 a.m.

  
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 Javier Romero  
 Board President

11/18/09  
 Date

  
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 Sangeeta Bhatia  
 Retirement Plan Manager

11/19/09  
 Date

  
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 Erlinda F. Pabon  
 Senior Clerk Typist

11/19/09  
 Date