

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

MINUTES

June 3, 2009

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Forescee Hogan-Rowles, Commissioner
Jeff Peltola, Chief Financial Officer

Board Members Absent:

H. David Nahai, General Manager

Staff Present:

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

Others Present:

Michael Wilkinson, Deputy City Attorney
Alan Manning, Assistant City Attorney
Mike Moy, Pension Consulting Alliance
Tad Fergusson, Pension Consulting Alliance
Allan Emkin, Pension Consulting Alliance

President Romero called the meeting to order at 10:52 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Romero recognized Mike Moy and Allan Emkin, both from Pension Consulting Alliance, Inc. (PCA). Mr. Moy indicated they were present to provide clarification on PCA's involvement as a consultant for the Los Angeles Fire and Police Pension (LAFPP) plan in the search process and hiring of Aldus Equity as private equity consultant for LAFPP, as previously discussed at the Retirement Board Meeting on May 6, 2009. He also indicated the General Counsel of the Retirement Board requested they elaborate on their role. Mr. Emkin, President and owner of PCA, explained PCA was retained by LAFPP to perform the search for private equity consultants. He indicated PCA conducted the routine search as necessary, calling for the candidates' references and verifying the materials that were submitted in response to the Request for Proposals (RFP). Mr. Emkin read the following response he provided to LAFPP when LAFPP asked PCA about the selection process:

"Aldus has a good system. Aldus is a very young firm... And when I look at them, the one observation I have is that they're young. I think there's good about that, and I think there's bad about that. They have a good client base, and in my opinion the skill set is excellent. I think they'd be committed to you, and you'd be an important client to them, and in my opinion, they'd do the job... We'd be comfortable with any of these candidates. They would not be in the book if we didn't think they could do job."

At 10:55 a.m., Ms. Bhatia announced she received a note indicating Mr. Nahai had to leave following the adjournment of the Special Meeting and was unable to join the Board for the Regular Meeting.

(Jeff Peltola joined the meeting at 10:55 a.m.)

Out of Order - *The Board met in closed session at 10:57 a.m. to confer with counsel and staff on the following item:*

9. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9 (b), to confer with legal counsel regarding a matter in which, based on existing facts and circumstances, there is a significant exposure to litigation against the Board, and pursuant to Government Code Section 54956.9(c), to confer with counsel in considering whether to initiate litigation in that matter.

(Mr. Peltola left the meeting at 11:34 a.m.)

The Board met back in open session at 11:35 a.m. with no action taken.

1. Approval of Minutes for the Regular Meeting of May 6, 2009

Ms. Coffin moved for approval of the May 6, 2009, Regular Meeting Minutes as submitted; seconded by Ms. Hogan-Rowles and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, and Hogan-Rowles

Nays: None

RECEIVED AND FILED

2. INTECH Conflict of Interest Settlement

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

Ayes: Romero, Coffin, Poole, Moore, and Hogan-Rowles

Nays: None

(Mr. Peltola rejoined the meeting at 11:36 a.m.)

3. Presentation by Earnest Partners – Annual Performance Review as of April 30, 2009

Mr. Romero acknowledged Katie Driver Ealy, Product Manager, and Jessie Magee, Investment Manager, from Earnest Partners.

Ms. Ealy reported the firm's total assets under management were \$12.7 billion with a total small cap value of \$2.9 billion. She reported the firm was not impacted by the current market environment and they continue to be a fundamental, bottom-up stock selector focused on high quality companies. She noted the second half of 2008 and the first two months of 2009 were difficult as investors were forced to sell to meet their credit obligations; however, for the first quarter of 2009, the Plan's portfolio outperformed the benchmark by 360 basis points.

Mr. Magee provided an overview of the Plan's portfolio performance as of April 30, 2009. He reported the portfolio had excess returns of 222 basis points year to date and 18 basis points since inception annualized. He added during May, the portfolio gained another five percent versus the index which was down by one percent; as of June 2, 2009, the portfolio had appreciated to approximately \$7 million which brought the market value to \$85 million. He also

discussed the sector weightings and the companies the firm held for the Plan, plus the top ten contributors and detractors that historically have driven the portfolio's performance.

6. Discussion of Insurance Requirements for Simpson & Simpson (Out of Order)

Ms. Bhatia provided background on this item, which was deferred from the previous meeting. She reported the requirement for contractual liability insurance was specified in the audit contract Request for Proposal (RFP). At the time Simpson & Simpson responded to the RFP, they believed their professional liability coverage was satisfactory; however, they later learned it was insufficient, and they have since been unable to obtain the contractual liability coverage of their contract. Ms. Bhatia further stated other pension plans were contacted regarding this particular provision and, according to the information gathered, several pension plans did not have this provision, and the ones that did were unable to provide supporting documentation.

Ms. Bhatia acknowledged Ms. Grace Yuen of Simpson & Simpson.

Ms. Yuen described the efforts Simpson & Simpson made and the difficulties they encountered in attempting to comply with the insurance requirements. She also stated they contacted the insurance brokers provided by Avery Neaman, DWP Risk Manager, but the only responsive quotes received were from a non-admitted insurer and an insurer whose cost was prohibitive.

Mr. Peltola provided some background and referenced a memo in the agenda package which contained a review by an outside company to determine whether the Department's professional liability insurance requirement is consistent with the industry standards. A series of discussions followed on whether the contractual liability insurance requirement for Simpson & Simpson should be waived.

Mr. Neaman stated the Risk Management Section had researched the availability and cost of this coverage. He also explained the difference between an admitted carrier and a non-admitted carrier for the benefit of the Board. Following a series of discussions, Ms. Hogan-Rowles asked for other options, and Mr. Peltola indicated the Board has the ability to waive this insurance requirement. Ms. Bhatia agreed that this was the reason why this item was brought back before the Board.

Mr. Romero expressed his disagreement to waive the insurance requirement for Simpson & Simpson, because they responded to the RFP knowing the insurance requirements.

Mr. Moore moved for approval to waive the Contractual Liability Insurance Requirement for Simpson & Simpson; seconded by Ms. Hogan-Rowles and carried after the following vote:

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

Nays: Romero, Poole

Ms. Hogan-Rowles stated she would like for the Board to review the insurance requirements and to incorporate agreed upon changes in future RFPs for auditing services. Ms. Bhatia confirmed the request will be presented to the Board at a future meeting.

Jeff Peltola left the meeting at 12:31 p.m.

4. Presentation by Paradigm – Annual Performance Review as of April 30, 2009

Mr. Romeo acknowledged James Francis, President and CEO; and Gregory Pai, Managing Director, CCO, of Paradigm Asset Management Co.

Mr. Francis provided an update of the company, its investment team, and its product. He reported there were no changes with their investment team, firm ownership, or any of its professional staff. He noted the company had outperformed its benchmark in 12 of the past 17 years and currently holds approximately \$433 million in total assets in 23 accounts under management. Mr. Francis noted Paradigm's philosophy is to achieve consistent and reliable returns through leveraging information on other institutional holdings to identify undervalued securities. He also noted their investment process involves isolating market data to determine which securities have the highest expected returns with the least amount of risk.

Mr. Pai reiterated Mr. Francis' comments regarding small growth investments and added this process should enhance the stock selection. He noted the Plan's portfolio had 400 basis points of excess return as of March 31, 2009. He stated the transition began in 2008, and the last phase is scheduled to begin next week. He discussed the performance and reported the portfolio underperformed by 277 basis points as of the first quarter of 2009 and underperformed by 474 basis points since inception in 2006. He also reviewed the portfolio's attribution and the top contributors and detractors for the year ending April 30, 2009.

5. Presentation by BNY Mellon on Securities Lending

Ms. Bhatia provided background on this item and indicated a number of changes have occurred in the securities lending program conducted by BNY Mellon.

Mr. Romero acknowledged Heidi Simpson, Senior Client Executive and Michael McDermott, Manager of Client Service Group for Securities Lending, both from BNY Mellon.

Mr. McDermott presented an overview of BNY Mellon, and noted they currently have \$2.5 trillion in lendable assets and \$300 billion on loan. He explained they lend out securities and invest the cash collateral in short-term or overnight cash equivalent securities and the money is made on the interest earned. He reviewed the market environment and effects. He also reported that lending has decreased as a result of the credit crisis. He emphasized that market illiquidity put pressure on the market value of the term investments within the cash collateral pools and separate accounts, but generally the assets continued to perform as expected.

Mr. McDermott explained that because some clients wanted to trim their program and others wanted to add to their program, BNY decided to split their securities lending into two funds to provide liquidity (overnight investments), and a term component (longer term). He reported some of the other changes were adding an additional oversight committee, increasing reporting frequency from monthly to daily, increasing transparency with term assets, and increasing the use of term lending.

Mr. McDermott reviewed their performance and indicated BNY Mellon generated close to \$20 million in securities lending earnings since its inception.

Mr. Wolfson requested an explanation of the structural changes and how they affected the collateral pool from a risk management perspective. In response, Mr. McDermott explained the term component will follow 2A7 Rule guidelines and rein in risk; whereas previously, the security lending

program could buy securities that matured in three years but now are limited to 13 months if they followed 2A7 Rule guidelines. He added that following 2A7 Rule guidelines would offer sufficient spreads while lowering exposure to risk.

7. Discussion of Policy with Respect to Placement Agents – as Discussed by Governance Committee

Ms. Bhatia provided an overview of what was discussed at the Governance Committee meeting held immediately prior to this meeting. She stated this item will be discussed further by the Governance Committee to create a policy regarding the use of placement agents.

8. Discussion of Recommendations from IFS Audit – as Discussed by Governance Committee

Ms. Bhatia reported this item was also considered earlier at the Governance Committee meeting, and a special meeting will be held to discuss the details and next steps to implement recommendations.

9. Closed Session

This item was considered earlier in the meeting.

10. REPORTS FOR REFERENCE

- a) Summary of Investment Returns as of April 30, 2009
- b) Market Value of Investments by Fund and Month as of April 30, 2009
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of April 30, 2009

This item was included for reference only with no discussion.

11. Retirement Board Newsletters – May 2009 and June 2009

This item was included for reference only with no discussion.

12. Retirement Plan Manager's Comments

Ms. Bhatia provided an update on the new system and reported the implementation of the first phase is imminent. She stated Staff has been working weekends with respect to acceptance testing and once the first phase is implemented, parallel testing will begin.

Ms. Carranceja reported both Ms. Higgins' and ITA's Staff have done a good job on this project and she also acknowledged the vendor, JEA, as being very accommodating regarding the system's customization.

Ms. Bhatia confirmed receipt of two scanners and reported Ms. Carranceja and Mr. Neaman were working to resolve a related insurance issue. Ms. Bhatia further stated two full-time Clerk Typists are needed to continue the scanning process which is currently being performed by two 'limited' Clerk Typists.

Ms. Bhatia also stated she recently attended a Personnel Committee Meeting and a Council Meeting with respect to the use of placement agents and will report back to the City Council on any action taken by the Retirement Board with respect to the use of placement agents.

In response to Mr. Romero's question regarding parking for Board Members, Ms. Bhatia indicated she is still working on resolving the parking situation and will provide a report at the next meeting.

13. Future Agenda Items

Budget re-consideration to be discussed at the next meeting.

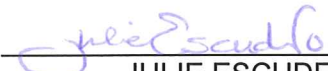
The Board meeting adjourned at 1:22 p.m.



JAVIER ROMERO Date
President



SANGEETA BHATIA Date
Retirement Plan Manager



JULIE ESCUDERO Date
Utility Executive Secretary