

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

MINUTES

FEBURARY 10, 2010

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Jeff Peltola, Chief Financial Officer
S. David Freeman, Interim General Manager

Board Members Absent:

Appointed DWP Commissioner - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Mgr. *(via phone)*
Jeremy Wolfson, Chief Investment Officer
Monette Carranceja, Asst. Retirement Plan Mgr.
Mary Higgins, Asst. Retirement Plan Mgr.
Julie Escudero, Utility Executive Secretary

Others Present:

Neil Rue, Pension Consulting Alliance, Inc.
Sarah Bernstein Pension Consulting Alliance, Inc.

President Romero called the meeting to order at 10:09 a.m. following the Pledge of Allegiance.

Mr. Wolfson indicated a quorum of the Board was present.

Public Comments

No public comments were received.

1. Approval of Minutes for January 13, 2010, Regular Retirement Board Meeting

Mr. Moore requested the ninth bullet point under Retirement Plan Manager's Comments on Page 1.8, be amended to read as follows:

"Implementation of the new asset allocation structure . . . but approximately \$55 million pertaining to the Small Cap Growth mandate has now successfully been transitioned . . . "

*Ms. Coffin moved to approve the Minutes for January 13, 2010, as amended;
seconded by Mr. Poole and carried after the following vote:*

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

2. Report on Organizational Changes at Pacific Alternative Asset Management Company

Ms. Coffin moved to accept Item 2; seconded by Mr. Poole and carried after the following vote:

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

3. Presentation by Loomis, Sayles & Company, High Yield Investment Manager Annual Performance Review as of December 31, 2009

Mr. Romero acknowledged Stephanie Lord of Loomis, Sayles & Company.

Ms. Lord provided background on the firm and reviewed the performance for 2009, noting the fund was up 60.65% year to date ending December 31, 2009.

(Mr. Freeman joined the meeting at 10:13 a.m.)

Ms. Lord reviewed the returns and noted the firm's good security selection.

(Mr. Peltola joined the meeting at 10:15 a.m.)

Ms. Lord provided a risk analysis and stated Loomis has been focusing on specific risk rather than general market risk. She also reviewed the market environment and the economic outlook for 2010. Mr. Freeman asked what the return on our original investment was rather than the return on the current market value. Ms. Lord responded the yield to maturity was approximately 7.75% and with active management they are able to adapt to market changes. She added that the current yield on the portfolio is 6.5%.

In reference to Mr. Poole's inquiry, Ms. Lord noted the average annual return since inception was 7.27%.

4. Presentation by Wells Capital Management, High Yield Investment Manager – Annual Performance Review as of December 31, 2009

Mr. Romero acknowledged Steve Scharre and Niklas Nordenfelt from Wells Capital Management (Wells).

Mr. Freeman asked that the presentation focus on the risk of the investments.

Mr. Scharre explained that Wells managed two high yield portfolios for the Plan - - the Retiree Health Benefits Fund (RHBF) with a current market value of \$33.9 million, and the Retirement Fund with a current market value of \$139 million. He stated this presentation was for the RHBF.

Mr. Nordenfelt reviewed the themes and key drivers for 2009 and noted the current default risk was quite low and a decrease was projected for this year.

He reviewed the portfolio's performance by sector and noted the worst performers in 2008 were the best performers in 2009.

Mr. Nordenfelt reviewed the 2009 performance highlights and noted the portfolio underperformed the index last year; however, it was currently up 47%. He also reviewed the portfolio's performance relative to its peers and noted it outperformed its peer groups and ranked in the top half.

In response to a question from Mr. Freeman, Mr. Nordenfelt indicated the return on the Plan's original investment was 7.5%.

5. Request by Landmark Equity Partners Fund XIV to Amend their Contract with Respect to Fundraising

Mr. Wolfson reported this item was a request from Landmark Equity Partners Fund XIV (Landmark) for the Board to approve a two-month extension of its investment period. He indicated Landmark had already received two-thirds consent from its partners and this request was just a formality.

Mr. Moore moved for approval of Landmark's request for a two-month contract extension ; seconded by Ms. Coffin, and carried after the following vote:

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

6. Request by Western Asset Management Company to Amend their Contract with Respect to Delegation

Mr. Wolfson reported that Western Asset Management Company (WAMCO) has requested authorization to delegate the portfolio management to its affiliate in London under a subsidiary, Western Asset Management Company Limited (WAML); however, in order for them to manage the portfolio, permission must be approved by the Board. He stated Pension Consulting Alliance and Staff both concur with WAMCO's request for authorization to delegate management of the Plan's account to WAML.

Mr. Moore moved for approval of WAMCO's request to amend their contract; seconded by Ms. Coffin, and carried after the following vote:

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

7. Request by Invesco Advisers, Inc., to Amend their Contract with Respect to Assignment and Delegation

Mr. Wolfson provided background on this item which concerned a request by Invesco Advisers, Inc., for authorization to assign and delegate investment and support activities to its affiliates, subsidiaries, and possibly to third parties for administrative or non-advisory activities.

Mr. Moore moved for approval of Invesco' request to amend their contract ; seconded by Ms. Coffin, and carried unanimously after the following vote:

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

8. Resolution to Ratify the Board's Decision to Hire T. Rowe Price Associates, Inc., to Manage the Domestic Large Cap Growth Investment Mandate

Mr. Wolfson noted that at the Board meeting of December 16, 2009, the Board hired T. Rowe Price as an Active Large Cap Growth Equity Manager, and the attached resolution was necessary to ratify the Board's decision.

Mr. Freeman moved for approval of the attached Resolution No. 10-65; seconded by Ms. Coffin, and carried unanimously after the following vote:

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

9. Discussion of the Retirement Plan's Strategic Asset Allocation – Presentation by Pension Consulting Alliance, Inc.

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

During Mr. Rue's presentation, Mr. Freeman was called out of the meeting. Mr. Romero stated that since this item was requested by Mr. Freeman, it would be deferred to the next meeting.

(The Board recessed at 11:30 a.m. and reconvened at 11:47 a.m.)

10. Discussion of Investment Return Assumption

This item was also requested by Mr. Freeman and was deferred to the next meeting.

11. Discussion of Insurance Provisions with Respect to Pending Contracts

Jeremy Wolfson provided background on this item which concerned the interpretation of the insurance provision pertaining to maximum coverage limits and whether it was acceptable for an investment manager to purchase a smaller insurance policy to meet the Plan's minimum requirements of 2.5% of the Plan assets under management or \$1 million, whichever is greater, or was it necessary for them to change their primary insurance policy to name the Plan as an additional insured which would provide larger coverage than what the Plan requires.

Discussion ensued among the Board, Staff, and Risk Manager Avery Neaman regarding maximum coverage and also the interpretation of the requirement that proof of insurance for higher limits (already purchased in an investment manager's normal course of business) must be disclosed or made available to the Plan.

Following discussion of the previous provisions and minutes,

Mr. Moore moved that the Board go with the previously revised provisions and accept the previously agreed upon minimum requirements of professional liability coverage in an amount equal to the higher of 2.5% of the Plan assets and \$1 million; and to accept whatever additional insurance may be available only as a result of the investment managers having negotiated something on their behalf and perhaps on behalf of their clients. The motion was seconded by Mr. Peltola and voted as follows:

Ayes: Moore and Peltola

Nays: Romero, Coffin, and Poole

The motion did not pass.

- 12. 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.

13. Retirement Plan Manager's Comments

Ms. Bhatia reported that the actuarial cost to the Plan regarding reciprocity was being prepared by The Segal Company and would be presented to the Board in March.

Ms. Bhatia reported on the Cost of Living Adjustment (COLA) for the retirees and noted the annual COLA was based on the CPI index. She stated the CPI this year was negative 0.8%. She further stated the Plan provisions had protections which prevented reduction of a retirement allowance to less than what a member retired with. She added staff was consulting with the City Attorney on the implementation plan and this item would be presented to the Board for action at the next meeting.

Ms. Bhatia reported that staff was nearing completion of the functional testing of the new system.

14. Future Agenda Items

No future agenda items were requested.

There being no further business, the meeting adjourned at 12:55 p.m.

Javier Romero 3/10/10
Javier Romero Date
Board President

Sangeeta Bhatia 3/10/10
Sangeeta Bhatia Date
Retirement Plan Manager

Julie Escudero 3-10-10
Julie Escudero Date
Utility Executive Secretary