

**SPECIAL MEETING NO. 1 OF THE RETIREMENT BOARD OF ADMINISTRATION
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MINUTES

DECEMBER 15, 2010

Board Members Present:

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

Board Members Absent:

Austin Beutner, Interim General Manager
Mario Ignacio, Chief Accounting Employee
Christina Noonan, DWP Commissioner

Staff Present:

Sangeeta Bhatia, Retirement Plan Mgr.
Monette Carranceja, Ass't. Retirement Plan Mgr.
Mary Higgins, Asst. Retirement Plan Mgr.
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Alan Manning, Assistant City Attorney
Marie McTeague, Deputy City Attorney
Neil Rue, Pension Consulting Alliance
Tad Fergusson, Pension Consulting Alliance
Kay Ceserani, Pension Consulting Alliance
Mike Moy, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance
Joseph Carieri, Western Asset
Paul Wynn, Western Asset
Teri Noble-Grumm, BNY ConvergeEx
Warren Chun, Zeno Consulting Group
Vinod Pakianathan, Zeno Consulting Group
Lourdes Canlas, Courtland Partners Ltd.
Garrett Zdolshek, Courtland Partners Ltd.

President Romero called the meeting to order at 9:03 a.m. following the Pledge of Allegiance.

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

Public Comments

No public comments were received

1. Approval of Minutes for Regular Meeting of October 27, 2010

2. Termination from Rolls

**Termination of Monthly Allowance from the December 2010 Retirement Roll
Termination of Kayce Hatter from the December 2010 Family Death Benefit Roll**

Ms. Coffin moved for approval of Items 1 and 2; seconded by Mr. Moore

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

THE MOTION CARRIED

3. Report of Payment Authorizations for November 2010

4. Notice of Deaths for November 2010

5. Report on Holdings of Aetos Alternatives Management, Pacific Alternative Asset Management Company, and MFS Investment Management

Mr. Moore moved for approval of Items 3 through 5 as received and filed; seconded by Ms. Coffin.

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

THE MOTION CARRIED

6. Investment Reports

- a) Summary of Investment Returns as of October 31, 2010**
- b) Market Value of Investments by Fund and Month as of October 31, 2010**
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of October 31, 2010**

These reports were presented and included no discussion.

8. Annual Presentation by Western Asset Management Company (Out of Order)

Mr. Romero acknowledged Joe Carieri and Paul Wynn from Western Asset Management Company (WAMCO). Messrs. Carieri and Wynn reviewed the company's background, management style and philosophy. Mr. Wynn reviewed WAMCO's investment strategies and the portfolio performance, and he noted the performance improved by 40 basis points. He reviewed the market outlook and risk factors.

In response to a question from Mr. Poole, Mr. Wynn noted the added value to the fund was 140 basis points as of November 2010; however, he stated he expects it to improve significantly.

9. Presentation by Pension Consulting Alliance, Inc. – Third Quarter Hedge Fund-of-Funds Performance as of September 30, 2010

David Sancewich from Pension Consulting Alliance (PCA) reported as of September 30, 2010 the Retirement Fund portfolio had \$71.2 million in assets across Aetos and PAAMCO and approximately \$15.2 million in assets the Health Plan fund. He stated both portfolios were performing well. He reminded the Board that PAAMCO was recently terminated, the funds were being liquidated and PCA would provide investment options to the Board in January for those funds. He described changes that took place within the management of both companies, and he stated PCA conducted a site visit with Aetos and found them to be stable.

In response to Mr. Moore's question regarding rolling betas, Mr. Sancewich stated many portfolios across the industry had low betas in 2008.

(Alan Manning left the Board meeting and Marie McTeague joined the meeting at 9:11 a.m.)

7. Presentation by the Segal Company - Annual Actuarial Valuations (Out of Order)

a) Disability Fund as of July 1, 2010

b) Death Benefit Fund as of July 1, 2010

a) Mr. Romero acknowledged John Monroe from The Segal Company. Mr. Monroe reviewed the balances in assets and reserves for the Disability Fund which included Temporary Disability, Extended Temporary Disability, Permanent Total Disability, and Supplemental Disability. He reported Segal recommended a slight decrease in the Department contribution rate from \$1.34 per \$100 of compensation to \$1.29 per \$100 of compensation for the TD/ETD benefits, and the continued suspension of the department's contribution for the PTD benefits.

Ms. Higgins stated Staff agreed with Segal's recommendation that the Board study the target reserve level and the funding mechanism for the funds to provide more of a buffer against the significant fluctuations in TD/ETD payments. She noted the third "WHEREAS" in the attached Resolution No. 11-48 to adopt Segal's recommendation should read 2010/2011 not 2010/2010.

Mr. Moore moved for approval of Resolution No. 11-48 and Staff's recommendation to conduct an additional study of the funding methods and reserve target levels; seconded by Ms. Coffin

Ayes: Romero, Coffin, Moore, Poole

Nays: None

THE MOTION CARRIED

b) Ms. Higgins explained two reports were associated with the Death Benefit valuation - - the valuation itself which includes the Family Death Benefit Allowance, the Supplemental Family Death Benefits, and the Insured Lives portion of the fund; and the Governmental Accounting Standards Board (GASB) reporting requirements for the Noncontributing Members.

Mr. Monroe reported \$6 million was currently in the reserve for the Family Death Benefit Fund and because the target reserve was \$200,000, Segal recommended the Department continue to suspend its contribution to the Family Death Benefit Fund. He noted participation in the Supplemental Family Death Benefit program is optional and is based on each participating member's contribution. He reported Segal recommended the current employee contribution rate be maintained and added no Department contribution was necessary at this time. He noted Segal recommended the Department restart its contribution to the Insured Lives Death Benefit for contributing members at \$0.29 per \$100 of covered compensation and decrease its contribution for non-contributing members to \$1.48 per \$100 of the retirement roll.

Mr. Monroe explained the purpose of the GASB report was to document the calculation of information required by the Governmental Accounting Standards Board and those calculations were not used to determine the Department's contribution rate. Mr. Monroe noted the unfunded liability using GASB methodology is \$85 million and the required contributions would be approximately 1.25% of compensation or \$10 million.

Mr. Moore moved for approval of Resolution No. 11-49 to adopt the Review of the Death Benefits Fund and authorize the Plan Manager to bill the Department in accordance with the report; seconded by Ms. Coffin.

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

THE MOTION CARRIED.

10. Discussion of New Private Equity Investment Opportunity with Audax Mezzanine III

Mike Moy from Pension Consulting Alliance (PCA) gave a brief overview of the Audax Mezzanine Management Company and the Audax Mezzanine Fund III.

In response to Ms. Coffin's question regarding PCA's concerns with the potential conflicts of interests with other businesses, Mr. Moy stated PCA raised this concern due to the history of companies with multiple products but was satisfied with Audax's reputation for managing multiple product transactions.

Peter Gummesson from Audax Mezzanine III introduced himself and his colleague Kevin Magid. To add to Mr. Moy's response, Mr. Magid assured the Board that only 3% of their investments had been perceived as possible conflicts of interest, and they were brought to the attention of their advisory board who ruled on each and notified the Limited Partners.

Messrs. Magid and Gummesson spoke about Audax's team and strategies and reviewed the history of Audax's client returns. They explained their views on leverage and reviewed their performance history.

Mr. Magid provided background on Audax's team and investment staff and explained how Audax chooses potential investment opportunities.

In response to Mr. Romero's and Ms. Coffin's concern with the lack of women representing the company, Mr. Magid stated Audax has a new female Vice President of Finance and looks forward to having more women in leadership roles within the company. He also noted they previously had more women employed, but many left to raise their families.

In response to a question from Mr. Poole, Mr. Moy stated this firm would fall into the "Alternatives" investment category.

Mr. Moore moved for approval of Resolution No. 11-50 to commit \$25 million from the Retirement Fund and \$5 million from the Retiree Health Benefits Fund to Audax Mezzanine III; seconded by Ms. Coffin.

Mr. Moy stated PCA was modifying their recommended commitment from the Retirement Fund to \$20 million.

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

THE MOTION CARRIED AS MODIFIED.

(The Board recessed at 10:18 a.m. and reconvened at 10:29 a.m.)

11. Discussion of Commission Recapture Pilot Program Results

Mr. Wolfson gave the background on the selection of BNY ConvergEx for a 12-month pilot Commission Recapture Program. He noted the program generated approximately \$450,000 back to the Plan and, as a result, Staff was recommending the Board enter into a contract with BNY ConvergEx for a permanent Commission Recapture Program.

Mr. Romero acknowledged Teri Noble-Grumm from BNY ConvergeX, and Messrs. Vinod Pakianathan and Warren Chun from the Zeno Consulting Group (Zeno).

Ms. Noble-Grumm explained the Commission Recapture process and how trades come through ConvergeX and a portion of the commission is rebated back to the Plan. She reviewed the program's performance during the pilot period and noted the amounts refunded. She also identified the firms that participated in the program and reviewed the numbers from each firm.

Ms. Noble-Grumm stated rebates from the participating firms are expected to be at a rate of approximately 30%-40%.

Messrs. Chun and Pakianathan provided an overview of Zeno and pointed out that Zeno is an independent firm that measures/analyzes and tracks trading costs and performance.

Mr. Pakianathan explained how they determine transaction costs and noted Zeno's job is to ensure the Plan is paying the most economical transaction costs with its contracted investment managers. He reviewed Zeno's goals and average client savings.

Mr. Chun reviewed the Plan's backdrop costs and noted the gross commission was reduced by 1.5 cents per share. He concluded with their recommendation that the Commission Recapture Program be continued as long as it was fiscally viable and suggested the program be reviewed at least annually.

Mr. Wolfson added this program provides the ability to track costs down to the finest detail, and it allows Staff to better engage managers, improve due diligence, and create a better dialogue with investment managers.

Mr. Moore moved for approval of Resolution No. 11-51 to enter into a three-year contract with BNY ConvergeX; seconded by Ms. Coffin.

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

THE MOTION CARRIED.

12. Discussion of New Real Estate Investment Opportunity with Invesco Core Real Estate-USA Fund

The Board recognized Garret Zdolshek and Lourdes Canlas from Courtland Partners.

Mr. Zdolshek provided background and Ms. Canlas reviewed the long-term investment strategy for the Plan's real estate portfolio. She stated Courtland was recommending the Board invest \$35 million (\$30 million from the Retirement Fund and \$5 million from the Health Fund) in Invesco Core Real Estate-USA Fund (Invesco Core RE) to help rebalance the portfolio's Core investments.

Mr. Zdolshek described how Courtland selected Invesco Core RE which ranked third behind PRISA and JP Morgan Strategic Property, the portfolio's other core commitments. He also stated Courtland viewed Invesco as providing a better risk-adjusted return compared to other core open-end funds in its peer group.

Mr. Romero acknowledged Max Swango and Bill Grubbs from Invesco Real Estate (Invesco RE).

Mr. Swango gave a general overview of Invesco RE and noted Invesco Core Real Estate-USA Fund is Invesco RE's flagship fund.

Mr. Grubbs described open-end commingled funds and reported Invesco RE invested in four property types and focused on income-oriented properties. He stated they maintain leverage below 35% and are transparent with quarterly valuations and reports.

Mr. Grubbs noted the overall portfolio has a 94% occupancy rate and 65% of the properties have no debt. He stated the 35% with debt are primarily multi-family properties that have favorable terms. He noted Invesco Core RE has \$383 million in investment queues and planned to call capital in April 2011. He added their portfolio is currently valued at 23% below replacement cost, and it has outperformed its benchmark by 120 basis points since inception. He further added they charge a flat management fee of 90 basis points.

Mr. Romero asked why so few women were on their team and if their succession plan included women and minorities. Mr. Swango responded that the focus of their senior management is to develop a diverse workforce, and he noted they recently added more women to their West Coast team. He added that many of the women professionals they had been grooming over the years left to raise families.

Mr. Moore moved for approval of Resolution No. 11-52 to commit \$35 million to Invesco Core Real Estate-USA Fund; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

13. Discussion of Post Transition Review by Pension Consulting Alliance, Inc.

The Board recognized Neil Rue and Kay Ceserani from Pension Consulting Alliance.

Mr. Rue reviewed the transition which rebalanced and reallocated the asset classes in both the Retirement Fund and Health Plan portfolios due to the new policy target that took effect in October 2010. He noted the transition went smoothly, both economically and operationally.

14. Discussion of Presentation Schedule for Investment Managers for 2011

In response to Ms. Coffin's request for a schedule of site visits, Neil Rue from Pension Consulting Alliance indicated he would provide a schedule at an upcoming meeting.

15. Discussion to Extend the Contract with T. Rowe Price Emerging Markets Manager

Mr. Wolfson gave the background on this item which requested an extension of the contract with T. Rowe Price for an additional three years.

Mr. Moore moved for approval Resolution No. 11-53 to extend the contract with T. Rowe Price; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

16 Discussion to Extend the Contract with The Boston Company Emerging Markets Manager

Mr. Wolfson provided background on this item which recommended extending the contract with The Boston Company for an additional three years. He noted the contract terms will remain the same unless further notified.

Mr. Moore moved for approval of Resolution No. 11-54 to extend the contract with The Boston Company; seconded by Ms. Coffin.

Ayes: Romero, Coffin, Poole, and Moore

Nays: None

THE MOTION CARRIED

17. Discussion of Organizational Change at Landmark Partners

Mr. Wolfson provided background information on this item and noted the Board committed funds to Landmark Equity Partners XIII in 2006 and to Landmark Equity Partners XIV in 2008. He reported Staff was notified on November 19, 2010, that Landmark intended to enter into a partnership with Religare Global Asset Management, Inc. (Religare) whereby Religare would acquire 55% ownership interest in the new jointly-owned company Landmark Partners, LLC. He noted the consent documents were reviewed by the Plan's legal counsel; however, PCA had not received the contract and governance documents prior to today's meeting; therefore, PCA recommended the consent documents not be approved at this time.

Mr. Romero acknowledged Tad Fergusson from PCA and Frank Borges from Landmark Partners (Landmark). Mr. Fergusson stated PCA considered the partnership as a significant change in organization but did not perceive it would change Landmark's investment strategy and process. He continued that until PCA had an opportunity to review the documents, they recommended the Board deny the consent.

In response to Ms. Coffin's question of why Landmark had not provided PCA with the requested documents, Mr. Borges explained they were advised by their legal counsel to withhold the documents until they received a waiver of confidentiality from PCA. He added they now have the waiver and will make the documents available. He also stated that Landmark had received majority consent from their other Limited Partners, and the transaction was set to close by the end of December; however, they hoped to include the Board's consent nonetheless.

Mr. Fergusson added that PCA would like to take the time to review the documents and come back to the Board, but Landmark could still go forward. He also added no options were available at this point to withdraw the Board's investment.

Discussion continued and the item was deferred pending PCA's review of the necessary documents.

(Alan Manning rejoined the meeting at 12:17 p.m.)

8. Retirement Plan Manager's Comments

Ms. Bhatia reported that the individual personal benefits statements were sent to approximately 500 employees for review and feedback. She noted Staff met with representatives from ITS and the Print Shop to discuss printing and rolling out the statements for next year. She reported Staff

is working with JEA to program the new system to comply with Internal Revenue Service rules regarding deductions and benefit payments and the Plan Amendment regarding additional annuity distribution options. She noted as a result, the implementation of the payroll module had been delayed.

Ms. Bhatia reported the 1099s for 2010 were being processed using the old system and were due at the end of January 2011. She added Staff expected to process the 1099s for 2011 using the new system.

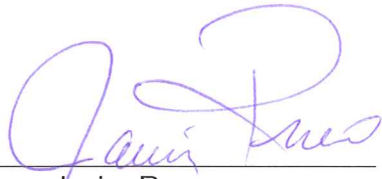
She reported time and resource constraints continue with respect to the implementation of the payroll module and data cleanup. She added that the limited available resources were now causing concerns regarding accuracy. She also reported resource issues had affected the payment by the City Attorney of some invoices, one of which was to one of the Board's outside attorneys, Nossaman, Guthner, Knox & Elliot, LLP (Nossaman). She noted the situation was now under control, and the affected companies would soon receive payment.

She added the contract with BNY Mellon was extended, and Staff had successfully renegotiated its fees down resulting in considerable saving to the Plan.

She also reported a Request for Information had been developed with respect to the document imaging project and the scanning of back files.

On behalf of the Board, Mr. Romero apologized to Nossaman for the delay.

There being no further business, the meeting adjourned at 12:35 p.m.



Javier Romero
Board President

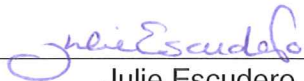
2/23/11

Date



Sangeeta Bhatia
Retirement Plan Manager

2/23/11
Date



Julie Escudero
Utility Executive Secretary

2-23-11

Date