

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

**MINUTES**

**SEPTEMBER 14, 2011**

**Board Members Present:**

Javier Romero, President  
Mario Ignacio, Chief Accounting Employee  
Barry Poole, Regular Member  
Robert Rozanski, Retiree Member

**Board Members Absent:**

Cindy Coffin, Vice President  
DWP Commissioner - Vacant  
Ronald O. Nichols, General Manager

**Staff Present:**

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

**Others Present:**

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 9:04 a.m. following the Pledge of Allegiance.

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

**Public Comments**

One Public Comment was received and was expressed prior to discussion of Item 9.

**Consent Items**

**1. Request for Approval of Minutes for the August 10, 2011, Regular Meeting**

*Mr. Rozanski moved for approval of Item 1; seconded by Mr. Poole.*

*Ayes: Ignacio, Poole, Romero, and Rozanski*

*Nays: None*

*Absent: Coffin and Nichols*

*THE MOTION CARRIED.*

**Received and Filed Items**

**2. Report on Organizational Change at Oaktree Capital Management, LLP**

**3. Staff Report on Due Diligence Site Visit to Western Asset Management Company**

**4. Staff Report on Due Diligence Site Visit to J.P. Morgan Asset Management Company**

With respect to Item 2, Mr. Romero asked if it was necessary to note organizational changes involving personnel other than those making investment decisions. Ms. Bhatia stated this change was noted because it involved the Board's contact, but it was up to the Board as to which types of changes to include.

With respect to Items 3 and 4, Mr. Romero asked about the format for the next site visit. Mr. Wolfson stated the agenda for all site visits is fairly consistent for all managers initially, and Staff may ask for additional information based on the responses they receive to the questionnaires they send the managers prior to the visit.

With respect to Item 3, Mr. Rozanski asked if Western Asset Management Company's (WAMCO) facilities could withstand earthquakes. Mr. Wolfson said Staff would report back to the Board with that information.

In response to Mr. Romero's question regarding WAMCO's pre-trade screening, Mr. Wolfson stated each manager has their own system.

*Mr. Rozanski moved to accept Received and Filed Items 2 through 4; seconded by Mr. Poole.*

*Ayes: Ignacio, Poole, Romero, and Rozanski*

*Nays: None*

*Absent: Coffin and Nichols*

*THE MOTION CARRIED.*

### **Regular Items**

#### **5. Presentation by Pension Consulting Alliance, Inc. – Second Quarter Hedge Fund Performance Review for 2011**

Mr. Romero acknowledged David Sancewich from Pension Consulting Alliance (PCA).

Mr. Sancewich reported that as of June 30, approximately \$36.6 million in the Retirement Fund and \$7.9 million in the Health Fund was invested with Aetos and that, year to date, the portfolio was up 1.9% versus the benchmark at 1.5%. He noted that for the one year ending as of June 30, the portfolio's excess return was 4.3%, and the entire hedge fund portfolio including the PAAMCO residual and Aetos were up 3.1% annualized since inception versus the median fund. He added the portfolio's standard deviation has decreased substantially since 2008 and is back in line with its original intent.

Mr. Sancewich stated that 90% of the assets from PAAMCO (which the Board terminated) were returned December 31, 2010, and the residual, which was held over to be audited, has now been returned.

He reviewed the portfolio's rolling beta, diversification, and manager allocation and turnover, and he reported Aetos has not added value since the Board hired them. He stated PCA will revisit this entire portfolio during the upcoming Real Return structure review.

Mr. Romero asked if PCA was looking for another hedge fund manager to replace PAAMCO. Mr. Sancewich replied it would basically depend on the asset size, and PCA will eventually discuss with the Board about customizing the account.

#### **6. Annual Presentation by J.P. Morgan Asset Management Company – Core Fixed Income Manager /**

The Board acknowledged Joel Damon and Brett Cambern from J. P. Morgan.

Mr. Damon reported the Columbus Fixed Income platform is valued at approximately \$180 billion, and the Plan is invested in that platform's Core discipline which is valued at \$59 billion. He reported the Plan's combined portfolio has a market value of \$1.2 billion.

Mr. Cambern reviewed the investment process and reported it has not changed for 25 years. He reviewed the market environment over the past year, and he provided a broad economic update. He noted the Treasury's downgrade in early August had little impact in terms of average credit rating on the portfolio.

Mr. Cambern reviewed the portfolio's performance. He reported it had a better than normal return for the year at 5.95% net of fees versus 4.44% for the benchmark, with the largest positive factor being the mortgage allocation, and the greatest detractor was the underweight to corporate bonds.

## **7. Annual Presentation by Wells Capital Management Company – Core Fixed Income Manager**

The Board acknowledged Sandy Willen and Troy Ludgood from Wells Capital Management Company (Wells Capital).

Ms. Willen stated Wells Capital manages four portfolios for the Plan (Retirement Fund, Retiree Health Benefits Fund, Death Benefits Fund, and Disability Fund) with a combined total of \$1.3 billion in assets, and the focus of this presentation was the Retirement Fund. She reported the investment process and philosophy have remained unchanged since they were hired by the Board seven years ago, and Wells Capital has added value to the portfolio since its inception in 2004.

Ms. Willen reported the portfolio was initially funded with approximately \$929 million in assets, and its market value as of July 31, 2011, was slightly over \$1 billion, with returns for the past seven years of just under \$500 million or 6.6% (100 basis points over the benchmark) net of fees. She also briefly reviewed the performance and noted the portfolio returned 5.43% net of fees for the year (99 basis points over the benchmark).

Mr. Ludgood reported on how the team achieved that performance and how the portfolio was currently positioned. He also spoke about the current outlook and the ample opportunities they believe exist in the market.

## **8. Presentation by Courtland Partners - DRA Advisors Real Estate Opportunity**

The Board acknowledged Michael Humphrey and Lou Canlas from Courtland Partners.

Mr. Humphrey reported they were providing the Board with a Value-Add real estate investment opportunity in DRA Advisors, LLC; specifically in the DRA Growth and Income Fund VII. He noted Courtland recommended an allocation to DRA of approximately \$16 million.

Mr. Humphrey reviewed DRA's 25-year track record and stated their manager discipline focuses on income. He noted Courtland's concern that DRA has used leverage in the past which ranged from 60% to 75%. Mr. Romero asked what percentage of leverage would be acceptable, and Mr. Humphrey responded 60% to 65%.

Mr. Humphrey turned the presentation over to Paul McEvoy, Senior Managing Director of DRA. Mr. McEvoy reviewed DRA's investment approach, their performance, how they manage risk, and the particulars of Fund VII. He indicated DRA presently manages approximately \$9 billion and is a value oriented firm. He reported their target is 12% to 15% net investment returns, and the income component of that is typically 60%. He noted the management team has ownership in the company, and they co-invest in every fund.

Mr. McEvoy said DRA has been in the market for Fund VII for approximately five months and expects to have the last closing on October 3, 2011. He stated their first closing was in early May, and they were initially oversubscribed; however, space became available when some investors indicated they were unable to meet the funding deadline.

Mr. McEvoy reviewed the structural provisions of Fund VII. He noted DRA does not charge fees on committed capital, instead they charge fees only on investment dollars (90 basis points on the total gross asset value for the first three years, then 60 basis points for the remainder of the fund). He added they also have an incentive fee.

Mr. Rozanski asked if DRA has a geographical focus, and Mr. McEvoy stated DRA only focuses in the United States.

Mr. Romero asked Courtland to state why multiple opportunities for real estate are not presented at the same time. Mr. Humphrey explained real estate is opportunistic, and Courtland will try to present multiple managers when available; however, a single opportunity is more likely to present itself when it must be seized quickly. Mr. McEvoy added that DRA learned only two weeks ago that space became available in this fund.

Ms. Bhatia asked if any component of Fund VII would be in development assets, and Mr. McEvoy responded that no development would be included.

Ms. Bhatia pointed out the figures in the attached Resolution No. 12-19 were inconsistent and should read \$16 million. Mr. Humphrey; however, noted it should be \$16.1 million. Ms. Bhatia stated if the Board approved the investment, Staff would bring back an amended resolution.

*Mr. Rozanski moved that the Board approve the investment of \$16.1 million in DRA Fund VII; seconded by Mr. Poole.*

*Ayes: Ignacio, Poole, Romero, and Rozanski*

*Nays: None*

*Absent: Coffin and Nichols*

*THE MOTION CARRIED.*

## **9. Discussion of The Boston Company Asset Management Performance - International Developed Markets**

The Board heard public comments by John Havens and Kirk Henry of The Boston Company. Mr. Havens expressed the disappointment of The Boston Company (TBC) in the performance of the Plan's portfolio since inception and conveyed TBC's resolve to provide the Board with all of the information necessary to help the Board make its decision with respect to TBC's contract. He stated TBC believes it is well positioned for the market to turn in its favor and suggested this was not a good time to abandon a value approach such as TBC's. He offered a possible change in the fee structure to more of a performance-based fee, or possibly a waiver of some fees until they start to generate alpha. He also suggested the Board extend their watch.

Mr. Wolfson provided TBC's performance history and the Plan's performance criteria, and he reported that Staff concurred with the recommendation of Pension Consulting Alliance (PCA) that the Board proceed with the Request for Proposal (RFP) process to replace TBC.

Neil Rue from PCA added that TBC picks stocks well; however, their deep value style has been the penalizing factor and has hurt this account since its inception. He noted the investment team is stable and seasoned, but changes have occurred at TBC that surround that team. He added TBC has been on watch status for more than half of their time with the Plan for either organizational or performance reasons.

Discussion followed with respect to TBC's investment style, the RFP process, the mandate style for the new RFP, and the restructuring of the real return asset class.

Mr. Romero provided Messrs. Havens and Henry with an opportunity to present additional comments. Mr. Henry expressed his appreciation for the opportunity and explained the market has been out of sync with TBC's investment style for some time. He expressed his concern for the timing of terminating their style of investing and stated he believes when the markets recover they will add significant alpha to the portfolio. He provided the Board with a handout which showed the potential alpha generation. He also stated if the markets decline again, their style will provide protection.

Mr. Rozanski expressed his concern that the situation could linger and, in the interim, the portfolio could potentially miss out on revenues generated by a new manager.

*Mr. Rozanski moved that the Board proceed with the RFP process; seconded by Mr. Ignacio.*

*Ayes: Ignacio, Poole, Romero, and Rozanski*

*Nays: None*

*Absent: Coffin and Nichols*

*THE MOTION CARRIED.*

Mr. Romero thanked The Boston Company for the relationship and said he was sorry it did not work out.

#### **10. Discussion of Private Equity Benchmark by Pension Consulting Alliance, Inc.**

Mr. Wolfson reported this item was initially discussed at the regular meeting of July 27, 2011, and was brought back at the request of the Board for follow up as to why both the Cambridge Custom Benchmark and the Russell 3000 Index + 300 basis points benchmark are used for the Private Equity portfolio.

Tad Fergusson from Pension Consulting Alliance (PCA) presented additional background. He stated the private equity asset class is a difficult asset class to benchmark given its unique characteristics, and no true industry benchmark is in place as is the case for public equity and real estate. He stated the use of multiple benchmarks in the policy initially was to capture different aspects of the class; however, the Russell 3000 Index + 300 is now more appropriate given the maturity of the program and its holdings. As a result, Mr. Fergusson stated PCA suggested the Plan move to the Russell 3000 Index + 300 benchmark for the private equity asset class.

*Mr. Rozanski moved that beginning September 30, 2011, the Board use the Russell 3000 Index + 300 as the exclusive benchmark for the private equity asset class; seconded by Mr. Ignacio.*

*Ayes: Ignacio, Poole, Romero, and Rozanski*

*Nays: None*

*Absent: Coffin and Nichols*

*THE MOTION CARRIED.*

#### **11. Investment Reports for July 2011**

- a) **Summary of Investment Returns as of July 31, 2011**
- b) **Market Value of Investments by Fund and Month as of July 31, 2011**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of July 31, 2011**
- d) **Summary of Contract Expirations**

These reports were included for reference only and no discussion took place.

#### **12. Retirement Plan Manager's Comments**

Ms. Bhatia reported Staff is working on the contract with Vontobel, the newly hired Emerging Markets Equity Manager. Staff has been successful with the fee negotiations, and a draft contract is currently with the City Attorney's Office for review. She stated Vontobel's compliance with the insurance provisions is unlikely to be an issue. She added Vontobel requested some exceptions to their manager-specific guidelines, and Staff will bring the exceptions to the Board for approval.

With respect to the transition plan, Staff is monitoring the market situation before proceeding. Staff has prepared the Request for Information to select the transition manager.

Ms. Bhatia reported Staff will begin parallel testing on the new system with respect to retirement allowances for October and November. She stated staff from the Retirement Office, the Employees Association, and the Health Plans Office are involved in the effort which includes data entry into three applications: the old application, the module for the active members, and the payroll processing module.


Ms. Bhatia reported the annual actuarial report will be presented to the Board at the September 28 meeting. She stated the Department's contribution rate will slightly increase from last year's 38.5% now to 41.8% for this year, and the funding status decreased from 81.4% to 80.3%.

She reported Staff has received a draft of the reciprocity report and the final is expected within a week. She stated after it has been reviewed by Labor Relations Office and the City's Chief Administrative Office, Staff will present it to the Board.

#### **13. Future Agenda Items**

No future items were requested at this time.


With no further business, the meeting adjourned at 11:19 a.m.

  
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Javier Romero  
Board President

11/9/11  
Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

11.9.11  
Date

  
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Julie Escudero  
Utility Executive Secretary

11.9.11  
Date