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

MINUTES

JANUARY 23, 2013

Board Members Present:
Cindy Coffin, Vice President
Barry Poole, Regular Member
Ronald O. Nichols, General Manager
Robert Rozanski, Retiree Member

Board Members Absent:
Mario Ignacio, Chief Accounting Employee
Javier Romero, President
DWP Commissioner - Vacant

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

Vice President Coffin called the meeting to order at 9:02 a.m.

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

Public Comments

Ms. Bhatia announced Retirement Office employees Devika Nair, Hermilina Tumaliuan, and Conney Williams were retiring effective February 1, 2013, and the Retirement Office had resolutions to present to them. She stated Mr. Williams was present, and the resolutions for Ms. Nair and Ms. Tumaliuan will be mailed. Vice President Coffin acknowledged Mr. Williams and read his resolution, which was followed by comments from Ms. Coffin and Messrs. Rozanski and Poole. Mr. Williams expressed his thanks. Ms. Coffin also read the resolutions for Ms. Nair and Ms. Tumaliuan and thanked them for their service.

Ms. Coffin introduced Retirement Office employees Maggie Barreau and Narina Davtyan. Ms. Barreau is the new Principal Clerk Utility in the Membership Section, and Ms. Davtyan is the new Principal Clerk Utility in the Retirement and Death Benefits Section.

1. Termination from Rolls
   a) Termination from January 2013 Retirement Roll
   b) Termination of Sharon A. Baneer from Dec. 2012 Permanent Total Disability Roll
   c) Termination of Jennifer L. Delgado from Dec. 2012 Permanent Total Disability Roll
   d) Termination of Wilson Jackson, Jr., from Dec. 2012 Permanent Total Disability Roll
   e) Termination of Allan Raye McNeal from Dec. 2012 Permanent Total Disability Roll

Mr. Rozanski moved that the Board approve Item 1; seconded by Mr. Nichols.

Ayes: Coffin, Poole, Nichols, Rozanski
Nays: None
Absent: Ignacio, Romero

THE MOTION CARRIED.

2. **Report of Payment Authorizations for December 2012**

3. **Notice of Deaths for December 2012**

4. **Investment Reports for December 2012**
   a) **Market Value of Investments by Fund and Month as of December 31, 2012**
   b) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of December 31, 2012**
   c) **Summary of Contract Expirations**

5. **Report on Status of Insurance as of January 8, 2013**

6. **Aetos Capital Hedge Fund of Funds On-Site Visit - Report from Pension Consulting Alliance**

7. **Fred Alger Large Cap Growth Equity On-Site Visit - Report from Pension Consulting Alliance**

8. **Frontier Capital Small Cap Growth Equity On-Site Visit - Report from Pension Consulting Alliance**

9. **Loomis Sayles High Yield Fixed Income On-Site Visit - Report from Pension Consulting Alliance**

Items 2 through 9 were addressed under Received and Filed.

With regard to Item 2 *(Report of Payment Authorizations for December 2012)*, Mr. Rozanski referred to two payment authorizations which corrected transaction errors, and he asked how the errors were discovered. Ms. Bhatia explained they were detected through the Retirement Office's internal review process.

With regard to Items 6 through 9 *(On-Site Visit Reports to Aetos Capital, Fred Alger, Frontier Capital, and Loomis Sayles, respectively)*, Mr. Rozanski asked that future reports show the impact to the Plan in terms of dollars and not just as percentages.

> *Mr. Rozanski moved that the Board accept Items 2 through 9; seconded by Mr. Nichols.*
>
> *Ayes: Coffin, Poole, Nichols, Rozanski*
> *Nays: None*
> *Absent: Ignacio, Romero*
>
> *THE MOTION CARRIED.*

10. **Discussion of Contract Extension for Frontier Capital Management, LLC, Domestic Small-Cap Growth**

Mr. Wolfson provided the background on this recommendation to extend the contract with Frontier Capital Management, which expires March 31, 2013. He reported Frontier has produced mixed performance results and is currently on short-term performance watch, although its recent performance has improved. He noted Staff will continue to monitor Frontier's performance and will present its findings to the Board at the end of the watch period in March. He reported that in the meantime, based on no significant findings in Frontier's responses to Staff's comprehensive due diligence questionnaire, and acknowledging Frontier's improving performance, Staff and Pension Consulting Alliance recommend the Board extend its contract with Frontier for an additional three years through March 2016. He noted the contract will include the standard termination clause.

Mr. Rozanski asked that future reports show the performance results as net amounts to see the true impact.

> *Mr. Rozanski moved that the Board approve Resolution No. 13-52 to extend the contract with Frontier; seconded by Mr. Nichols.*
>
> *Ayes: Coffin, Poole, Nichols, Rozanski*
> *Nays: None*
> *Absent: Ignacio, Romero*
>
> *THE MOTION CARRIED.*

11. Discussion of Contract Extension for Western Asset Management Company, Global Inflation Linked Securities

Mr. Wolfson provided the background on this recommendation to extend the contract with Western Asset Management Company (WAMCO), which expires March 31, 2013, for an additional three years. He reported Staff conducted the standard due diligence process and found no significant issues in WAMCO's responses to the comprehensive questionnaire. He pointed out that WAMCO has not added value over their benchmark since inception and across all periods; however, they do not meet the standard watch criteria, and they continue to do what they were hired to do. He indicated Staff will continue to monitor their performance on a risk-adjusted basis, and if they later determine that WAMCO meets the watch criteria, Staff will come back to the Board with a recommendation. He reported that at this time Staff and Pension Consulting Alliance recommend the Board extend the contract through March 2016. He noted the contract will include the standard termination clause.

> *Mr. Nichols moved that the Board approve Resolution No. 13-53 to extend the contract with WAMCO; seconded by Mr. Rozanski.*
>
> *Ayes: Coffin, Poole, Nichols, Rozanski*
> *Nays: None*
> *Absent: Ignacio, Romero*
>
> *THE MOTION CARRIED.*

12. Discussion of Private Asset Class In-Kind Distribution Policy Guidelines

Mr. Wolfson said this item recommended amending the current investment policy pertaining to in-kind distributions in the private equity and real estate markets. He described a situation where an in-kind distribution could be necessary and noted no process to address that is currently in place. He explained that Pension Consulting Alliance (the Plan's private equity consultant) and Courtland Partners (the Plan's real estate consultant) recommended the Board amend the Investment Policy to allow for the use of an in-kind distribution manager to manage/liquidate in-kind distributions received. He stated the consultants also recommended the Board establish and utilize a bench of in-kind distribution managers similar to the current bench of transition managers.

Mr. Rozanski moved that the Board approve Resolution No. 13-54 to revise the Investment Policy to allow for the use of an in-kind distribution manager and to create a bench of in-kind distribution managers; seconded by Mr. Nichols.

Ayes: Coffin, Poole, Nichols, Rozanski
Nays: None
Absent: Ignacio, Romero

THE MOTION CARRIED.

13. Presentation by Pension Consulting Alliance, Inc. - Emerging Manager Training

Neil Rue from Pension Consulting Alliance (PCA) stated this presentation was at the request of the Board Members. He affirmed Mr. Nichols' comment that if the Board were to consider any changes to its portfolio and policies, it would be with the objective of balancing the existing portfolio while continuing with prudent investments. He added that diversification could not be the sole goal.

Mr. Rue explained emerging managers are no longer strictly considered as disadvantaged groups. He said the more general definition now includes firms that can be owned by anyone, not just minorities and/or women owned. He defined emerging managers as firms with little or no track record, low assets under management, few clients and staff, and employee-owned.

He indicated emerging managers could employ new and different ways to add value and provide diversity as long as the programs meet the fiduciary requirements. In response to Mr. Wolfson's question regarding California legislation, Deputy City Attorney Marie McTeague stated Proposition 209 prevents public entities from discriminating against, or providing preferential treatment to, any individual or group based upon race, color, national origin, or sex. She stated if the Plan were to establish an emerging manager program, it would be important not to target any of these groups for preferential treatment.

Mr. Nichols asked Ms. McTeague if the minority-owned/women-owned business provision recently modified by the City and the Board of Water and Power Commissioners to be a small business program, which could potentially lean toward more disadvantaged firms, was similar to the guidance she was providing. Ms. McTeague said it was similar in that the Plan would want to include all firms that fit the criteria and not just minority-owned business enterprises and women-owned business enterprises.

Mr. Nichols pointed out the City and the Department of Water and Power have adopted a local business preference program more for competitive bidding of goods and services, and he understood that to be a different criterion than what the fiduciary responsibility is for the Retirement Board. He asked what other funds were doing and what trends have been seen with regard to having smaller firms with less capitalization and years of experience in order to meet the Proposition 209 criteria.

Mr. Rue stated the portfolio characteristics would not change that much between emerging managers and mainline managers; however, the firm characteristics of emerging managers are very different from the typical firms in the Plan's portfolio, and that is a risk with emerging manager programs.

Mr. Rue reviewed the motivations for an emerging manager program. He stated emerging manager programs can provide new forms of added value and diversity in approaches, they can help create new businesses by diverse groups of entrepreneurs, and can be a means of graduating emerging managers to more successful firms and help give them institutional status.

With regard to performance, Mr. Rue said there is no material difference in risk-adjusted performance between mainline managers and developing managers.

Mr. Rozanski asked how attrition is handled especially if one group has higher attrition levels. Mr. Rue said that when comparing the difference in performance between mainline and developing managers with regard to survivorship bias, the dispersion is probably not as big as one would think. He also said that because the attrition levels are higher for emerging managers, they are riskier and twice as likely to dissolve.

Mr. Rue reviewed the results of several performance studies of emerging managers versus mainline managers in various mandates, and he pointed out that emerging managers' ability versus mainline managers could vary depending upon the mandate.

Mr. Rozanski asked if survivorship bias had an impact on the results of the studies. Mr. Rue responded that survivorship bias could have an impact. He said, in terms of gauging the difference of abilities between the two manager groups, survivorship bias is less distinguishable; however, the business risk of an emerging manager program is it has twice the potential to dissolve compared to a mainline manager program.

He reviewed the track record of several well-known plan sponsors, and he noted emerging manager programs have been difficult to implement and were not adding value relative to their benchmarks.

Mr. Rue said the fees for an emerging manager would likely be higher. He reviewed the three approaches to implement the program (direct investment approach, manager-of-manager approach, and fund-of-funds approach) and stated the administrative costs would depend on the approach taken. He said because of the nature of the program, oversight would be burdensome, so he recommended the manager-of-manager approach.

Mr. Wolfson pointed out the process of graduating an emerging manager into the Plan's portfolio without the Request for Proposal process would avert due process.

Mr. Rue indicated if the Plan were to implement an emerging manager program, it would probably be within the range of 1% to 5% of total assets ($100 million to $250 million allocated gradually). He recommended that if the Board were to proceed with an emerging manager program, they should first develop policies and procedures before they consider funding a vendor.

The Board entered a closed session at 10:25 a.m. to discuss the following:

14. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(1) to confer with legal counsel regarding pending litigation (one case); and possible action:

In Re BANK OF NEW YORK MELLON CORPORATION FALSE CLAIMS ACT FOREIGN EXCHANGE LITIGATION, ex rel. FX ANALYTICS, Plaintiffs, v. THE BANK OF NEW YORK MELLON CORPORATION, THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., et al., Defendants (UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF CALIFORNIA, SAN FRANCISCO DIVISION, CASE NO. 3:11-ev-05683-WHA)

The Board reconvened in open session at 10:29 a.m. with no action taken.

15. Reports for Reference - Summary of Investment Returns as of November 30, 2012

Mr. Rozanski asked why the since-inception field for the returns on page 15.1 was blank. He also asked for clarification of the since-inception numbers on page 15.5. Mr. Wolfson said he would report back with the requested information.

16. Retirement Plan Manager's Comments

Ms. Bhatia reported the Retirement Office received a letter from the Mayor's Office asking the Plan to look at divesting from companies that produce assault weapons. She stated the letter was distributed to Board Members prior to the meeting, and the item will likely be brought before the Board as an agenda item at the next meeting. She stated the Board has a policy related to handling governance issues such as this, and Staff will provide the policy to the Board as well.

She reported the 1099s for the retirees were processed using the new system and were mailed last Friday, and Staff is working on the 1099s for the withdrawal of funds, and those will be mailed soon.

She reported Staff is busy working on investment contracts recently approved by the Board.

She reported Staff is also working to fill vacancies, and she referenced the three retirements announced at the beginning of this meeting.

She stated the Retirement Office intends to fill the Management Analyst vacancy that will result when Conney Williams retires; in the meantime, Management Analyst Christina Munoz, who has handled the retirement seminar presentations when Mr. Williams has been absent, will step in as back-up. She stated the Retirement Office also has subject matter experts internally who will assist.

17. Future Agenda Items

None requested at this time.

There being no further business, the meeting adjourned at 10:33 a.m.

for	2/27/13		2/27/13
Javier Romero Board President	Date	Sangeeta Bhatia Retirement Plan Manager	Date

	2.27.13
Julie Escudero Utility Executive Secretary	Date