

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

**MINUTES**

**January 7, 2009**

**Board Members Present:**

Javier Romero, President  
Eugene K. Canzano, Vice President  
Forescee Hogan-Rowles, Commissioner  
Cindy Coffin, Board Member  
Michael Moore, Retiree Member

**Board Members Absent:**

H. David Nahai, General Manager  
Ron Vazquez, Chief Financial Office

**Staff Present:**

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

**Others Present:**

Michael Wilkinson, Deputy City Attorney  
Sarah Bernstein, Pension Consulting Alliance

President Romero called the meeting to order at 8:38 a.m. following the Pledge of Allegiance.

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

No public comments were received.

Mr. Romero introduced Carlo Manjikian who recently joined the Investment staff as an Investment Officer.

Mr. Romero then read a card addressed to the Board from retiree Gilma Dohs who thanked the Board for the continued receipt of her pension checks and benefits.

**1. Approval of Minutes:**

**Regular Meeting of October 1, 2008**

**Regular Meeting of October 15, 2008**

**Regular Meeting of November 5, 2008**

**Regular Meeting of December 10, 2008**

**Governance Committee Meeting of December 19, 2007**

Mr. Moore requested staff amend the language on page three of the October 15, 2008, Regular Minutes to clarify the information presented by Mr. Angelo of The Segal Company regarding the 2007-2008 return.

Mr. Moore moved approval of the above items, with the requested change to the October 15, minutes. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore

Nays: None

Mr. Romero called for comments on the following Items 2 through 6:

- 2. Report on Organization Changes at CB Richard Ellis Strategic Partners**
- 3. Report on Personnel Changes at BlackRock Investment Management**
- 4. Report on Personnel Changes at Intech (Enhanced Investment Technologies, LLC)**
- 5. Summary Investment Returns as of November 30, 2008**
  - a) Market Value of Investment by Fund and Month**
  - b) Market Value of Retirement, Death and Disability Funds and Retiree Health Care Fund**
  - c) Investment Returns**
- 6. Report on Status of Insurance as of November 30, 2008**

Mr. Canzano moved Items 2 through 6 be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore

Nays: None

**8. BNY ConvergEx Commission Recapture Presentation (Out of Order)**

Ms. Bhatia explained that a commission recapture practice is currently not permitted in the Investment Policy; however, staff recently heard this presentation and believed it was worth presenting to the Board for an overview and discussion of potential merits.

Mr. Romero acknowledged Ms. Teri Noble-Grumm of BNY ConvergEx and Mr. Vinod Pakianathan of the Plexus Plan Sponsor Group, a subsidiary of ITG Investment Group.

Ms. Noble-Grumm provided background on BNY ConvergEX. She conveyed that LJR is the recapture program within BNY ConvergEX, and they partner with the Plexus Group to provide trading cost analysis. She explained that the recapture program is a way to reduce commission costs via typical commission rebates of 25% to 35%. She described how the recapture program works and explained that investment managers would direct a set commission rate through LJR, and LJR would rebate a percentage (minus the research cost) back to the Plan. She added that LJR would provide monthly statements and perform monthly manager reconciliations and annual manager analyses.

Mr. Pakianathan highlighted the role of the Plexus Group which, through its manager database, provides oversight of the investment managers and measures/analyzes trading costs. He noted such oversight would provide greater transparency and could also result in an increase in returns.

In response to Mr. Moore's inquiry of Staff's opinion and Mr. Canzano's question of the fiscal impact, Mr. Wolfson replied that the program would provide better tools to help monitor and evaluate managers, and with a typical rebate rate of 25% to 35%, the program could generate approximately \$300,000 at no cost to the Plan.

Ms. Bhatia explained that since the current investment policy excludes a commission recapture program, the policy would require an amendment to incorporate such a program. She added that staff would evaluate the program, compare costs with and without the rebates, and come back to the Board with a resolution with their recommendations.

## **9. Presentation by Courtland Partners on Green Investments**

Mr. Romero recognized Ms. Lourdes Canlas and Ms. Jacinta de Rivera.

Ms. De Rivera explained that Courtland previously presented a report on green/sustainable investments to the Board and Staff on September 3, 2008, and at that time, the Board requested they return with a recommendation for possible action.

Ms. Canlas reported the total real estate portfolio was approximately \$170 million, which represented 2.5% of the total Plan, under its target allocation of 5%. She indicated the Plan's existing real estate investments do not include funds that are primarily focused on green/sustainable strategies; however, all are committed to promoting sustainability at varying levels, and that while Courtland believes that green investments will become a norm rather than a specific strategy in the near future, they were recommending that the Board not focus on a specific green strategy but, instead, search for a more diversified strategy that will provide protection of the principal and attempt to maximize risk adjusted returns.

Mr. Romero thanked Ms. Canlas for Courtland's comprehensive and unbiased opinion.

## **10. Pension Consulting Alliance, Inc. – Quarterly Performance Review for Period Ending September 30, 2008**

Mr. Romero recognized Ms. Sarah Bernstein of Pension Consulting Alliance, Inc. (PCA).

Ms. Hogan-Rowles entered the meeting at 9:58 a.m.

Ms. Bernstein provided an overview of the quarterly performance review for the period ending September 30, 2008. She stated that many changes had occurred since September and the preliminary numbers from December resulted in a great deal of positive recovery; however, the total portfolio for the third quarter ending September 30, 2008, and for the year was down -8% and -14%, respectively.

Ms. Bernstein reported on the asset class performance and noted the domestic equity portfolio underperformed the policy benchmark by 70 basis points, with a minus 9.4% return; the international equity portfolio outperformed its policy benchmark by 3.9%, with a minus 17.9% return; and the fixed income portfolio underperformed its policy benchmark by 90 basis points, with a minus 2.1% return.

Ms. Coffin inquired whether actions should be taken due to the portfolio underperforming the benchmark, to which Ms. Bernstein responded that in a time of volatility it was best not to make any major changes but to closely monitor managers and the market environment.

## **7. Aetos Hedge Fund Market Presentation (Out of Order)**

Mr. Wolfson explained that this update was requested due to the decline in the hedge fund market.

Mr. Romero recognized Mr. Bradley Rudner and Ms. Anne Casscells of Aetos Capital.

Ms. Casscells provided an overview of the market events that took place in 2008, the opportunities moving forward, and what should be expected of hedge fund managers. She added that Aetos performed more intensive monitoring during this period, and the Plan's portfolio was not, in effect, adversely impacted. She confirmed that the Plan was not investing in any fraudulent funds, and she felt optimistic about most hedge fund strategies.

The meeting recessed at 11:02 a.m. and reconvened at 11:13 a.m.

## **11. Approval of Funding for Outside Fiduciary and Investment Counsel**

Mr. Wilkinson explained that when the extension of the contracts for outside fiduciary and investment counsel were previously approved, the resolution prepared by the City Attorney did not contain funding approval, and Resolution No. 09-50 would remedy that.

Mr. Moore moved approval of Resolution No. 09-50; seconded by Mr. Canzano and carried unanimously after the following vote:

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

Nays: None

## **12. Approval of Attendance by Board Member at Opal Conference in December**

Ms. Bhatia stated that, due to the requirements under the Fair Political Practices Act, the City Attorney advised that this item be brought before the Board for the retroactive approval of attendance by the Retirement Board President at the subject conference.

She added that further rules regarding travel would be addressed in Item 15 later in the meeting.

Mr. Moore moved approval of this item; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles, and Moore  
Nays: None

**13. Approval for Payment of National Association of Public Pension Attorneys (NAPPA) Dues**

Mr. Moore moved approval of this item; seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles, and Moore  
Nays: None

**14. Approval for Deputy City Attorney to Attend the NAPPA Winter Section Meetings in Washington D.C**

Mr. Canzano moved approval of this item; seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles, and Moore  
Nays: None

**15. Report from City Attorney on Recent Changes in State Gift Regulations**

The City Attorney provided an overview regarding the changes to state regulations with regard to tickets to charitable fundraisers and gifts to the agency. He stated he could provide further training, either in general or on a case-by-case basis, if requested.

Mr. Romero asked that this item be brought back to the Board at a future meeting.

**16. Retirement Plan Manager's Comments**

Ms. Bhatia stated that the final draft of the IFS Management Audit had been received and an exit conference was scheduled for next week.

She stated that the credit monitoring service, provided to employees as a result of last year's theft of a computer containing personal employee information, would be expiring February 15, 2009, and a bulletin would be released as a reminder to employees to utilize this service.

Ms. Bhatia also informed the Board that vacancies were being filled; however, space had become a concern. Ms. Hogan-Rowles offered to inquire, on behalf of the Board, how more space can be obtained.

With respect to the new system, Ms. Bhatia reported that testing for phase one was concluding, and testing for the second module would begin in the near future. She added that the project is three to four months behind schedule due to vacancies and attendance issues. She further reported that the purchase of two scanners for the new system was in progress.

## 17. Future Agenda Items

In response to a question from Ms. Coffin, Ms. Bhatia indicated the election for the three employee representatives for the Retirement Board would be discussed at the next meeting.

The Board met in closed session at 11:33 a.m. to confer with counsel and staff on the following items:

**18. 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

**19. 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

The Board met back in open session at 12:23 p.m. with no action taken on Items 18 and 19.

The Board meeting was adjourned at 12:24 p.m.

  
JAVIER ROMERO  
President

  
SANGEETA BHATIA  
Retirement Plan Manager

  
JULIE ESCUDERO  
Utility Executive Secretary