

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

MINUTES

OCTOBER 7, 2009

Board Members Present:

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

Board Members Absent:

H. David Nahai, General Manager
Jeff Peltola, Chief Financial Officer
Appointed DWP Commissioner - Vacant

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Mary Higgins, Ass't Retirement Plan Mgr
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary
Michael Wilkinson, Deputy City Attorney

Others Present:

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

President Romero called the meeting to order at 9:06 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. James Francis presented his comments during Item 1.

1. Discussion of Performance by Paradigm Asset Management Company

James Francis, President and Chief Executive Officer of Paradigm Asset Management Company (Paradigm), requested the Board consider continuing its current relationship with Paradigm. He reported that Paradigm has begun to rebound from the high volatility and lack of market leadership experienced in the later half of 2008.

Mr. Francis distributed a handout which illustrated enhancements made by Paradigm and remarked that from the time the enhancements were completed in June 2009, Paradigm has continued to outperform its benchmark. He emphasized that Paradigm's process worked prior to the market collapse and Paradigm's strong track record has served its investors well in its twenty year history. Mr. Francis reiterated his request that the Board consider modifying Paradigm's watch status to provide additional time to continue to show that this process is working.

Jeremy Wolfson then provided Staff's report and reviewed Paradigm's portfolio history. He pointed out that Paradigm was 1,300 basis points below the benchmark as of June 30, 2009, and has since recovered slightly; however, they are still 1,000 basis points below the benchmark. He stated that at the time of inception in September 2006, Paradigm was given \$47.9 million to manage and, as of August of 2009, the market value of the portfolio was \$32.1 million. He indicated their earlier performance was a result of style drift and

pointed out they had a high level of exposure to mid-cap growth securities instead of small cap growth companies for which they were hired.

Ms. Coffin referred to the memo by Pension Consulting Alliance (PCA) which indicated that Paradigm's portfolio, from June 22, 2009, through September 28, 2009, added 1.4% of value versus the benchmark which indicated the new process had shown some improvement. She stated Paradigm had done what PCA and the Board asked and had shown positive results; therefore, she was willing to extend their watch status.

Neil Rue of PCA stated Paradigm's stock selection methods are still not proven, and PCA still does not have confidence in the enhancements because of the short time period in which they have been in place. He added though Paradigm has shown a small improvement, he did not believe they were likely to bounce back enough to recoup all the losses.

Mr. Francis stated he did not believe they had a shift in style. He stated they had a defensive posture and a reconstitution of the index occurred and they were being very cautious in how to transition the portfolio. He stressed that Paradigm performed its own research and communicated with PCA and staff. He stated the enhancements have been in place and worked for over a year in other strategies.

Mr. Moore commented that this is the Plan's second small cap growth manager to underperform and asked why it was difficult to find a manager in this class that can outperform the benchmark. He questioned if it would be better to invest in the index fund instead of a small cap growth actively managed account.

Mr. Rue explained that fewer analysts are available to track companies in this class than existed a few years ago.

Discussion ensued on the characteristics of active versus passive strategies.

Mr. Moore commented that he expects the Plan's portfolio managers to protect the Plan and he expressed his concern with Paradigm's poor performance on the market downside. He said he expects all of the Plan's portfolio managers to afford some protection on both the downside and on the way up to provide a more stable and less risky portfolio, and Paradigm has not done that.

Mr. Romero commented that since Paradigm is making money now, he believed it would be better to stay with Paradigm and hope to recover the losses.

Mr. Romero presented a Motion to extend the watch status with Paradigm for a period of six months with a reduction of fees; seconded by Mr. Poole.

Ayes: Romero, Poole, Coffin

Nays: Moore

The motion did not pass.

Sarah Bernstein, of PCA, suggested that if the Board wanted to reduce Paradigm's fees, that they determine that at this time.

Ms. Bhatia added that Paradigm started with an initial funding of \$47.9 million and the portfolio is now down to \$31 million, and the Board is paying active management fees so considering no decision was made concerning the status of their contract, it would be prudent to proceed with negotiating their fees down.

Mr. Romero directed Staff to work on reducing Paradigm's fees.

2. Presentations of Proposals and Interviews for Active Core Fixed Income Manager and Active Global Inflation Linked Securities Manager

The Board interviewed the following candidates for the Active Core Fixed Income Manager following a review by Neil Rue of the Request for Proposal (RFP) response material:

Active Core Fixed Income Manager

- a) ING Investment Management
- b) J P Morgan Asset Management, Inc.
- c) PIMCO (Pacific Investment Management Company, LLC)
- d) TCW Asset Management Company (Trust Company of the West)

At the conclusion of these interviews, the Board recessed at 11:35 a.m. and reconvened at 11:45 a.m.

Mr. Rue provided closing comments which were followed by considerable discussion. In the essence of time, the Board deferred making their selection until after the next set of interviews.

The Board then interviewed the following candidates for the Active Global Inflation Linked Securities Manager:

Active Global Inflation Linked Securities Manager

- a) BlackRock Financial Management, Inc.
- b) PIMCO (Pacific Investment Management Company, LLC)
- c) WAMCO (Western Asset Management Company)

At the conclusion of the interviews, Mr. Rue provided closing comments, and discussion ensued among the Board, PCA, and Staff.

With regard to the Active Global Inflation Linked Securities Manager:

Mr. Moore moved that the Board select BlackRock as the new Active Global Inflation Linked Securities Manager; seconded by Mr. Poole. The vote was as follows:

Ayes: Romero, Moore, Poole
Nays: Coffin

The Motion required four votes; therefore, it did not pass.

Following discussion regarding fees:

Mr. Moore moved that the Board select WAMCO, pending the matter of fee negotiation, and if their fees were non-negotiable, then the Board would select BlackRock; seconded by Ms. Coffin and carried after the following vote:

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

With regard to the Active Core Fixed Income Manager:

Mr. Moore moved that the Board select J P Morgan Asset Management, Inc.; seconded by Mr. Poole, and carried after the following vote:

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

There being no further business, the meeting adjourned at 1:40 p.m.




Javier Romero
Board President

11/18/09
Date



Sangeeta Bhatia
Retirement Plan Manager

11/19/09
Date



Julie Escudero
Utility Executive Secretary

11.19.09
Date