

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

MINUTES

JUNE 9, 2010

Board Members Present:

Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Jeff Peltola, Chief Financial Officer

Board Members Absent:

Javier Romero, President
Lee Alpert, DWP Commission Representative
Austin Beutner, Interim General Manager

Staff Present:

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

Others Present:

Neil Rue, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance
Alan Manning, Asst. City Attorney
Marie McTeague, Deputy City Attorney

Vice President Coffin called the meeting to order at 10:15 a.m. following the Pledge of Allegiance.

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

Public Comments

There were no public comments.

1. Approval of Minutes for April 28, 2010, Regular Retirement Board Meeting

Mr. Moore moved for approval of the minutes for April 28, 2010; seconded by Mr. Poole and carried after the following vote:

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

2. Presentation by Earnest Partners - Annual Performance Review as of April 30, 2010

Ms. Coffin acknowledged Katie Driver and Jessie Magee from Earnest Partners.

Ms. Driver provided an overview of the firm and reported the firm's assets were approximately \$17 billion as of the end of May. She reviewed the investment team and the investment process and noted the firm was in compliance with the Plan's investment guidelines. She gave a brief market overview and reviewed the portfolio's performance. She noted the portfolio continued to have positive returns and was up 14% versus 17% for the index year to date. She reported the portfolio for the Retiree Health Benefits Fund was up 13% versus 11% for the index since inception.

Mr. Magee reviewed the portfolio's sector weightings, market distribution, sector attribution, and the top ten contributors/detractors over the past twelve months. He reviewed the performance attribution and described the stock selection process. He also reviewed the risk profile and noted the levels of volatility and diversification were within the risk budget.

3. Presentation by Pension Consulting Alliance, Inc. – First Quarter Hedge Fund of Funds Performance Report as of March 31, 2010

Ms. Coffin acknowledged David Sancewich from Pension Consulting Alliance, Inc. (PCA).

Mr. Sancewich reported the Hedge Fund of Funds portfolio, comprised of Aetos and PAAMCO, had an aggregate value of \$70.8 million as of March 31, 2010. He credited the Board for manager selection and indicated the portfolio added value over the median fund since inception. He reviewed the portfolio's aggregate performance and the asset allocation composition, and he reviewed the individual performances for Aetos and PAAMCO, noting each outperformed the benchmark over all time periods and outperformed their peers.

Mr. Sancewich reported PCA was watching Aetos' 12-month rolling beta and would be conducting on-site due diligence. He also reviewed Aetos' manager allocation and turnover. With respect to PAAMCO, Mr. Sancewich indicated the 12-month rolling beta was relatively low for the past twelve-month period. He reviewed PAAMCO's manager allocation and turnover. He also provided a market overview with a year-to-date value of approximately \$1.6 trillion.

4. Discussion to Remove BlackRock from Watch Status Due to Organizational Changes

Mr. Wolfson provided background on this item which recommended BlackRock, Inc., be removed from watch status after meeting the Plan's performance criteria and generating returns closely tracking the Russell 1000 index within the range of +/- 0.10% since being placed on watch.

Mr. Moore moved to approve the removal of BlackRock from watch status; seconded by Mr. Poole and carried after the following vote:

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

5. Discussion to Extend the Contract with BlackRock, Inc., and Change the Account Structure

Mr. Wolfson provided background on this item which recommended extending the contract with BlackRock, Inc., and changing the account structure from a collective trust into a commingled account from August 1, 2010, through July 31, 2013. He reported that although BlackRock requested a substantial percentage increase in fees, Staff had successfully negotiated the fees under the new proposal to stay at the current fee structure.

Mr. Moore moved to approve extending the contract with BlackRock and changing the account structure; seconded by Mr. Poole and carried after the following vote:

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

6. Discussion to Approve the Contract Extension for T. Rowe Price Associates, Inc.

Mr. Wolfson provided background on this item which recommended extending the contract with T. Rowe Price for an additional three years from July 16, 2010, through July 15, 2013. He noted that T. Rowe had provided value to the portfolio and had outperformed the benchmark for the three-year and inception-to-date periods ending April 30, 2010.

Mr. Moore moved to approve extending the contract with T. Rowe Price; seconded by Mr. Poole and carried after the following vote:

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

7. Discussion to Extend the Contract with Wells Capital Management

Mr. Wolfson provided background on this item which recommended extending the contract with Wells Capital for an additional three years from July 1, 2010, through June 30, 2013. He noted the firm had outperformed its benchmark for the one-year, three-year, and inception to-date periods ending April 30, 2010.

Mr. Moore moved to approve extending the contract with Wells Capital; seconded by Mr. Poole and carried after the following vote:

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

8. Discussion to Extend the Contract with Wells Capital Management Sutter High Yield Team

Mr. Wolfson provided background on this item which recommended extending the contract with Wells Capital Management Sutter High Yield for an additional three years beginning July 1, 2010, through June 30, 2013. He noted that although the Board placed Wells Capital on watch status due to performance reasons in January 2010, Wells Capital had shown consistent improvement.

Mr. Moore moved to approve extending the contract with Wells Capital Sutter High Yield; seconded by Mr. Poole and carried after the following vote:

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

9. Discussion of City Council Request for Report on Consolidating Pension Systems

Ms. Bhatia reported that at the meeting of April 28, 2010, the Board directed staff to prepare a response to Council Motion 09-1860-S1 which asked the City's three pension systems to report to the City Council's Audits and Governmental Efficiency Committee to initiate discussions regarding the proposed investment and administrative consolidation of the City's three pension systems. She stated the draft response was provided for the Board's consideration at this time.

Ms. Bhatia stated on June 7 she and Ms. Coffin attended the City Council's Budget and Finance Committee where several motions pertaining to pension issues were on the agenda; one of which referenced the consolidation issue. She stated the intent of that meeting was to combine all of the different motions and direct the City Administrative Office and the office of the Chief Legislative Analyst to provide a consolidated report.

Mr. Moore said he was concerned about the Council Members and the Mayor's Office being caught by surprise if they had not received advance notification of the reciprocity issue before it reached the DWP Board of Commissioners. Ms. Bhatia stated Staff had provided the office of the Chief Legislative Analyst with courtesy copies of Staff's report to the Retirement Board. Mr. Peltola said he discussed this issue with the Department's Governmental Relations staff and with his superiors. He added it was discussed at the DWP Board agenda review meeting at length

regarding the proper wording of the resolution to specify the change would concern only those employees coming to the Department beginning with the effective date of the agreement and going forward.

The Board skipped ahead to Agenda Item 12 to continue the reciprocity discussion under the Retirement Plan Manager's Comments, per City Attorney advice regarding Brown Act Rules.

(Out of Order)

12. Retirement Plan Manager's Comments

Ms. Bhatia expanded on Mr. Peltola's previous statement that the reciprocity issue was discussed at the DWP Board of Commissioners agenda review meeting. She said it was noted that the reciprocity suspension provision did not apply to existing employees, and it was suggested a clause to that effect be added to the resolution which the Retirement Board had passed. Mr. Peltola added the modification was to reflect that only new employees who begin either on or after the effective date of the negotiated change would be affected and that existing employees would continue to be covered under the current agreement.

Ms. Bhatia indicated Staff had worked with Deputy City Attorney Marie McTeague to insert the additional clause. She said she conveyed that to Ann Santilli, and the report and resolution were scheduled for the June 15 DWP Board of Commissioners meeting.

Ms. Bhatia also stated the Council motion that referenced the reciprocity issue directed the City Administrative Office to discuss bargaining instructions with the Executive Employee Relations Committee. Ms. Higgins noted those instructions might indicate some interest on the City side for changes to the reciprocity program, and Ms. Bhatia added that was going beyond where the Retirement Board was headed at this point. She stated the other two pension plans had provided some positive reaction.

Ms. Bhatia reported she had communicated with Raman Raj and Michele Nagin on this issue.

Item 9 (Continued)

City Council Request for Report on Consolidating Pension Systems

With regard to the draft response to the Council motion, Mr. Peltola said he believed the main issue was the uniqueness of the Department's plan, with its distinct benefits and associated liabilities plus different economies and business drivers, and he suggested making that the first point instead of the third. He also suggested the words "*completely ignored*" be replaced with word such as "*did not evaluate*".

Mr. Peltola said he believed it was beneficial for the Department to meet with the other pension systems to share information and gain an understanding of what each system was doing, to which Ms. Bhatia stated Staff does meet with the other plans regularly.

Ms. Bhatia stated Staff will make the requested changes to the letter, to be signed by Mr. Romero as the Retirement Board President, and will send it off without further Board review.

(The Board recessed at 11:16 a.m. and reconvened at 11:20 a.m.)

10. Discussion of Governance Report from City Attorney

This item was tabled for the next meeting.

- 11. a) **Summary of Investment Returns as of April 30, 2010**
- b) **Market Value of Investments by Fund and Month as of April 30, 2010**
- c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of April 30, 2010**

This item was provided for reference only and included no discussion.

12. Retirement Plan Manager's Comments (Continued)

Ms. Bhatia reported the approved Retirement Office' positions still needed to be reflected in the Department's Annual Personnel Resolution. She reported system testing continued and training related to the retiree payroll component was on schedule. She stated Staff recently met with ITS representatives regarding the production of the annual benefit booklet and the annual member statement for active members.

She reported the reciprocity report to the Board of Water and Power Commissioners was scheduled for June 15, 2010. With respect to revising the interest rate on members' regular and additional contribution accounts, she stated Staff was researching for the City Attorney the history of the additional contribution to help them determine if revising the interest rate required a meet and confer process. She stated she and Ms. Coffin attended a recent City Council Budget and Finance Committee meeting regarding the management audit recommendation to consolidate the City's three pension systems.

Ms. Bhatia reiterated she met with Michele Nagin from the Employee Services Division, regarding the meet and confer concern and whether employee organizations would have to be contacted.

Ms. Bhatia reported that Staff was working on the document imaging component of the new system, particularly regarding scanning closed disability files for record retention purposes.

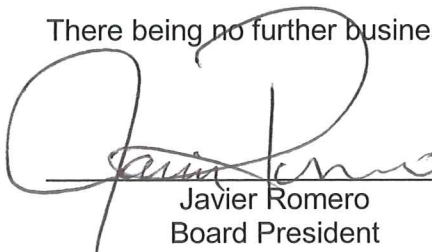
Ms. Bhatia announced the Board agendas were now posted online with links to each agenda item and corresponding meeting material. She said she would look into sending out a notification.

The next Board meeting is for June 23, 2010.

13. Future Agenda Items

Mr. Moore requested a presentation be made on the changes to the building security and the impact on retirees.

There being no further business, the meeting adjourned at 11:30 a.m.



 Javier Romero
 Board President

7/14/10

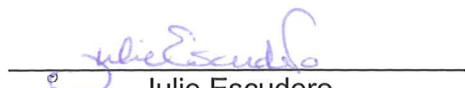
 Date



 Sangeeta Bhatia
 Retirement Plan Manager

7/24/10

 Date



 Julie Escudero
 Utility Executive Secretary

7.14.10

 Date