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

MINUTES

JANUARY 25, 2012

Board Members Present:
Javier Romero, President
Cindy Coffin, Vice President
Ronald O. Nichols, General Manager
Barry Poole, Regular Member
*Robert Rozanski, Retiree Member (**Arrived later in the meeting.*)

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

Staff Present:
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 8:06 a.m.

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

Public Comments
Ms. Escudero indicated no public comments were submitted.

1. **Request for Approval of Minutes for the November 9, 2011, Regular Meeting**

2. **Investment Reports for November 2011**
   a) **Summary of Investment Returns as of November 30, 2011**
   b) **Market Value of Investments by Fund and Month as of November 30, 2011**
   c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of November 30, 2011**
   d) **Summary of Contract Expirations**

   Mr. Poole moved that the Board approve Items 1 and 2; seconded by Mr. Nichols.

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

   THE MOTION CARRIED.

3. **Report of Payment Authorizations for December 2011**

4. **Notice of Deaths for December 2011**

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

6. Report on Status of Insurance as of January 18, 2012

Mr. Nichols moved that the Board accept Items 3 through 6; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

7. Discussion of Private Equity Investment Opportunity

The Board acknowledged Mike Moy from Pension Consulting Alliance (PCA) who provided information on PCA's recommendation that the Board make a commitment to Fisher Lynch Venture Capital Fund III. He stated the recommendation is contingent upon Fisher Lynch raising additional capital, and since Fund III is in its initial funding stages, the Plan has the ability to influence the terms and conditions of its investment, should the Board choose this opportunity.

He stated the Plan currently has a commitment in Fund II with Fisher Lynch, but the underlying portfolio companies in Fund III are different from those in Fund II.

Mr. Nichols asked what boundaries Fisher Lynch has set to insure reasonable diversity between the two funds. Mr. Moy explained Fisher Lynch has boundaries on the different targets within the various sectors, and the companies within the sectors are very diverse and unique.

The Board acknowledged Linda Lynch and Georganne Perkins from Fisher Lynch Capital. Ms. Lynch provided an overview of Fisher Lynch and the firm's objective. She explained the Venture III Fund has a target of $300 million of which $150 million is in venture capital. She stated their General Partner commitment in each of their portfolios is 1% of total capital. She added Fisher Lynch is 100% employee-owned.

Ms. Lynch reviewed their investment strategy and due diligence process. She explained that Fund III, like Fund II, is primarily focused in the United States; however, the fund's U.S. based managers may invest outside of the country, thus, approximately one-third of the portfolio will be focused in other areas, primarily in Asia.

Ms. Lynch stated Fund III will have a timeline similar to Fund II with a commitment period of three to four years and a full investment cycle typically of five to six years with distributions back over a ten year period.

Mr. Romero asked about the maximum allocation limits per country, and Ms. Perkins stated that allocation is determined by the individual venture managers. Ms. Lynch added the typical constraints among their venture managers is as low as10% outside of the United States and as high as 20%.

Mr. Nichols asked if Fund III has less international exposure than Fund II. Ms. Perkins replied that Fund II's exposure outside of the United States was approximately 12%, compared to Fund III's anticipated exposure of 5% to 15%.

In response to the comments of several Board Members that the allocation diversity for Fund III appears very similar to Fund II, Ms. Lynch stated the diversification at the portfolio company level is driven at the discretion of the venture managers, and the make-up of the Fund III portfolio, as in Fund II, is mostly driven by their manager selection for high returns and is focused on picking the best venture funds.

Ms. Coffin asked how the Plan would be protected in a down market if both Funds II and III were similar. Ms. Lynch explained Fund III will be invested into a different vintage period with new companies that will be developing technologies going into new markets and new economies. Some of the sector/industry exposure will be the same, but every underlying portfolio company will be different with different takes on the market opportunities. The companies will be in different stages of development.

Ms. Coffin asked Mr. Wolfson to comment on the diversity of the two funds. Mr. Wolfson stated from a portfolio construction perspective, the portfolio will be well diversified among the Plan's different private equity firms. The fact Fisher Lynch is a fund-of-funds will provide more diversification. He stated that although diversification is a valid concern, the portfolio is still well diversified within the Plan's private equity portfolio.

Mr. Nichols moved that the Board proceed with the investment in Fisher Lynch Venture Capital Fund III (Resolution No. 12-52); seconded by Ms. Coffin.

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

THE MOTION CARRIED

8. Discussion of International Developed Markets Passive Equity Manager Request for Proposals

Mr. Wolfson introduced this item which provided the results of the Request for Proposal (RFP) for a Passive Equity Manager within the Core space of the International Developed Equity mandate. He stated Pension Consulting Alliance (PCA) evaluated the RFP responses and Neil Rue from PCA was present to discuss their evaluation.

*(*Mr. Rozanski entered the meeting at 8:55 a.m.)*

Mr. Rue reported the responses to the RFP were limited; however, the firms that did respond essentially manage the bulk of passive assets globally. He stated the three largest indexers responded and two of the three (BlackRock and Mellon Capital Management) met all of the minimum and preferred qualifications; therefore, PCA recommended the Board interview those two firms.

In response to Mr. Romero's question as to why the number of RFP responses was so low, Mr. Rue explained that only a few large scale firms exists worldwide that can manage this type of mandate.

Mr. Nichols asked if anything in the Plan's requirements are more difficult to meet than the requirements of other pension systems. Mr. Rue replied it was the insurance requirement.

Mr. Poole moved that the Board proceed with the interviews of the two recommended candidates; seconded by Mr. Nichols.

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

THE MOTION CARRIED.

9. Discussion of the Real Return Portfolio Structure

Mr. Wolfson provided the background for this item regarding the restructure of the Real Return portfolio as a result of the incorporation of the new Covered Calls asset class. He said the item was back before the Board to 1) discuss the details of Option 4 of the four restructuring options presented by Pension Consulting Alliance (PCA) at the December 14, 2011, Retirement Board meeting and in which the Board expressed an interest; and 2) to discuss the recommendation to reduce the Real Return benchmark from the Consumer Price Index (CPI) + 4% to CPI + 3%.

Neil Rue from PCA added that structural Option 4 provided two allocation options identified as Option A and Option B. He stated the only material difference between the two options was the potential allocation between the two future Absolute Return managers, wherein Option A emphasized one Absolute Return manager over the other, and Option B equally weighted the two Absolute Return managers. He stated PCA was recommending Option B. He added the structure of the Absolute Return component of the Real Return asset class deserved further study and PCA would work with the Plan to build the appropriate structure.

> *Mr. Rozanski moved that the Board approve a revised Resolution No. 12-53 to select Structural Option 4 for the Real Return asset class, not to exceed 30% for the total Absolute Return allocation, and defer the selection of Asset Allocation Option A or B pending further analysis of the structure for the Absolute Return component; seconded by Mr. Nichols.*
>
> *Ayes: Coffin, Nichols, Poole, Romero, and Rozanski*
> *Nays: None*
> *Absent: Ignacio*
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> *THE MOTION CARRIED.*

10. Presentation by Courtland Partners – Real Estate Strategic Plan for 2012

The Board acknowledged Michael Humphrey and Bill Foster from Courtland Partners.

Mr. Foster explained how Courtland gathered information for the strategic plan to ultimately bring the Plan's overall investment portfolio up to a 5% allocation in real estate investments. Of that 5%, the current real estate allocation targets are broken down to 70% in Core real estate, 20% in Value-Add real estate, and 10% in Opportunistic real estate, with flexibility in each category to take advantage of changes in market conditions. To exercise that flexibility, he reported Courtland may target a 65% allocation in Core and 25% allocation in Value-Add to adjust to changing market conditions. This translates to commitments of approximately $240 million in Core, approximately $69 million in Value-Add, and $56 million in Opportunistic by the end of 2015. Courtland's recommended strategy for 2012 is to 1) commit approximately $50 million in Core (with approximately half of that amount in the form of publicly traded securities) and consider a reduction of the exposure to the current Core funds that have pricing questions; 2) commit approximately $30 million in Value-Add; and 3) commit approximately $25 million to Opportunistic.

In response to a question from Mr. Nichols, Mr. Humphrey indicated the recommended rebalancing will take place over the next four quarters.

11. Presentation by Courtland Partners – Real Estate Investment Trust (REIT) Training

The Board acknowledged Michael Humphrey and Bill Foster from Courtland Partners who were present to provide the Board with an educational session on Real Estate Investment Trust (REIT) investments and to eventually determine if a portion of the Plan's real estate investments should be in REITs.

Mr. Foster explained a REIT is a publicly traded investment that holds real estate, collects rents, and distributes profits back to investors. It is a legal structure that is required to pay out at least 90% of its taxable income to its investors. Mr. Humphrey added a REIT does not pay corporate taxes provided it distributes 90% of its income to its investors.

He explained REITs are either equities, mortgages, hybrids, or preferred securities, with different sectors within each type. They are typically Core allocations but in some cases will be categorized as Value.

Mr. Humphrey stated for investors looking for global exposure, REITs offer liquidity, convenience, the ability to move in and out of investment at smaller levels, and still have good diversification. He stated that currently less than 7% of global institutional real estate is publicly traded and because that percentage is expected to rise, the current market provides a great opportunity for investors to buy public securities at this time.

Mr. Foster reviewed the benefits and advantages of investing in REITS, such as significant income return, enhanced portfolio diversification, inflation protection, enhanced portfolio liquidity, and long-term return potential. He compared REITS to other asset classes and said they provide an opportunity for income return as well as appreciation potential. He added the investments can be customized based on the level of risk the Board would want. One of the disadvantages is their volatility.

He summed up by reiterating Courtland believes REITs investments provide a very good opportunity to expand the Core component of the Plan's portfolio, receive current income, maintain a decent level of liquidity, and an opportunity to diversify.

Mr. Nichols asked about Courtland's process to recommend REIT managers. Mr. Foster responded that Courtland has tracked the REIT universe and compiled a list of recommended managers for the Board to consider. The selection process would be the same as for their other recommendations. Mr. Humphrey added they currently have two managers whom they would like to bring before the Board to make presentations.

Mr. Wolfson asked if Staff would have the ability to advertise a Request for Proposals to provide the Board with more potential managers, and Mr. Humphrey said that would be acceptable.

Mr. Wolfson added Staff would come back to the Board with a recommended policy to help make a selection.

12. Discussion of Investment Policy Exception for Wells Capital Management Regarding Equity Exposure

Mr. Wolfson provided background on this item that recommends the Board again extend the holding period of 2,500 shares of Tropicana stock currently in the Wells Capital High Yield portfolio for an additional six months.

Mr. Rozanski moved that the Board adopt Resolution No. 12-54; seconded by Ms. Coffin.

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

THE MOTION CARRIED.

13. Retirement Plan Manager's Comments

In the absence of Retirement Plan Manager Sangeeta Bhatia, Assistant Retirement Plan Manager Mary Higgins provided the following comments:

- Long time Retirement Office employee, Lisa Poon, succumbed to her long term illness in December. She was a very valued member of the Retirement Office staff and worked in both the Investments and Accounting sections. Staff will greatly miss her.

- Staff will provide a complete report at the next meeting regarding the salary parity issue for the Chief Investment Officer (CIO) in the Retirement Office. Staff in Labor Relations provided information that MEA has filed a grievance to request a salary increase for the Retirement Office CIO to be commensurate with the other positions in the City. Labor Relations will attempt to resolve this issue either through the grievance process or the meet and confer process and will keep the Retirement Office apprised of any actions taken.

- Staff will meet with the City Clerk this week to review the rules for the election of the active member representatives to the Retirement Board. Once the City Clerk has provided Staff with a cost estimate and election calendar, the item will be scheduled for consideration by the Board of Water and Power Commissioners, most likely at its February 21 meeting.

- Staff mailed the 1099Rs yesterday. Fewer than 200 still need to be processed manually, and they will be sent out by the end of the week.

- Staff had identified major conversion issues for health and dental data in the new computer system, and those issues have been repaired by the vendor, JEA. The fixes resulted in more accurate data conversion and fewer discrepancies.

- Retirement Staff and Health Plans Staff continue to compare files from the old system (RAP) with the new system (PAS) to identify other conversion issues. Staff expects receipt of another release on February 22 which will include the Recovery functionality and a number of essential fixes needed for implementation.

Mr. Wolfson provided an update on the contract with Vontobel and the challenges Staff continues to face to open separate accounts in foreign countries for the Vontobel commingled account. The main obstacle is in obtaining the direct contracts with tax counsel in four of the countries, but Staff is making progress in those countries that do not require local tax consultants.

14. Future Agenda Items

Mr. Romero clarified that for the CIO salary parity issue, he had requested an agenda item not a manager update.

Mr. Rozanski asked if Staff compares the Plan's returns against CalPERS and CalSTRS. Mr. Wolfson indicated Staff does compare the Plan's performance with CalPERS and CalSTRS as well as the full peer universe. He added Staff will soon be presenting the Board with a proposed new format for the Plan's portfolio performance information. The proposed format will cover longer time periods and separate some of the private markets which are lagged.

Mr. Romero acknowledged Staff for its continued work and efforts to resolve the Vontobel funding.

Mr. Romero stated he had the pleasure of meeting and working with Lisa Poon who was a bright, warm person who was taken away too soon. He closed the meeting in her memory.

With no further business, the meeting adjourned at 10:15 a.m.

Javier Romero Board President	3/14/12 Date	Sangeeta Bhatia Retirement Plan Manager	3/14/12 Date
Julie Escudero Utility Executive Secretary	3.14.12 Date		