

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

MINUTES

September 10, 2014

Board Members Present:

Javier Romero, President
Barry Poole, Vice President
LaTanya Bogin, Regular Member
Marcie L. Edwards, General Manager
Mario Ignacio, Ch. Accounting Employee

Board Members Absent:

Mel Levine, DWP Commissioner
Robert Rozanski, Retiree Member

Staff Present:

Mary C. Higgins, Interim Retirement Plan Manager
Monette Carranceja, Assistant Retirement Plan Manager
Jeremy Wolfson, Ch. Investment Officer
Mary E. Alvarez, Utility Executive Secretary

Others Present:

Marie McTeague, Deputy City Attorney

Mr. Romero called the meeting to order at 9:18 a.m.

Ms. Higgins stated a quorum of the Board of Administration (Retirement Board) of the Water and Power Employees' Retirement Plan (Plan) was present.

Public Comments

Ms. Alvarez stated no requests for public comment were received.

1. Approval of Minutes of the September 3, 2014, Special Meeting

Ms. Higgins requested minor revisions to the minutes.

Mr. Poole moved that the Board approve Item 1, as amended; seconded by Ms. Bogin.

Ayes: Bogin, Edwards, Poole, Romero, Rozanski

Nays: None

Absent: Ignacio, Levine

THE MOTION CARRIED.

2. Presentation by Courtland Partners, Ltd. – 2014 First Quarter Real Estate Performance Report

Mr. Romero acknowledged Bill Foster and Stanley Kim of Courtland Partners, Ltd. (Courtland). Mr. Foster reported the Plan's real estate Portfolio was valued at just under \$346 million as of March 31, 2014, which represented 3.2% of the Plan's total assets. He stated the returns had been stronger than expected and summarized the one, three, and five year returns.

Mr. Foster reviewed the core, value, and opportunistic investment net and gross returns versus the benchmarks, risk/return, capital structure diversification, and the investment leverage within the Portfolio. In response to Mr. Romero's inquiry, he confirmed that the Portfolio was at a point to research further diversification.

3. Presentation by Pension Consulting Alliance, Inc. – 2014 Second Quarter Real Return Performance Report

David Sancewich of Pension Consulting Alliance, Inc. (PCA) presented the quarterly report for the Real Return Portfolio. He reported that since inception the portfolio gained 2.9% per year. He stated the portfolio's total exposure was approximately \$626 million in both the Retirement and Health Plan funds.

Mr. Sancewich reviewed the Portfolio's global inflation linked securities, commodities allocation, risk/returns since inception, and manager allocation and turnover. He stated the Portfolio is doing well and they will continue to customize as needed; however, it is providing the expected returns.

4. Presentation by Pension Consulting Alliance, Inc. – 2014 First Quarter Private Equity Performance Report

Mr. Romero acknowledged Tad Ferguson of PCA who presented the first quarter performance report. Mr. Ferguson reported the program committed approximately \$390 million of capital across 16 partnerships, with approximately 54% drawn down. He noted the net since-inception internal rate of return was 9.3%, which was up from one-year prior, which was a strong period of improved performance for the overall program. Mr. Ferguson stated the remaining market value was \$176 million, approximately 2% allocation of the total Portfolio, which was lower than expected over the long-term; however, there was progress toward the long-term goal.

He noted the program underperformed the public equity market and benchmark in the one-year, three-year, five-year, and since-inceptions periods, and advised that it was an appropriate time to review the private equity benchmark to validate the appropriate benchmark to be used and explore other options for discussion with the Retirement Board and the pros and cons of those options. Mr. Ferguson stated that overall the Portfolio is performing well, is diversified and well-positioned, and there will be continued commitment activity to reach and maintain the target allocation.

5. Annual Presentation by J.P. Morgan Investment Management, Inc. – Fixed-Income Core Manager

The Retirement Board recognized Joel Damon and Brett Cambern from J. P. Morgan Asset Management Company (J. P. Morgan). Mr. Damon stated the Columbus Core Bond strategy was used to manage the Plan's portfolio.

Mr. Cambern reviewed the fixed income organization, outlook, and strategy, noting no significant changes. He reported the portfolio was up 4.03% net of fees for the one-year period versus the benchmark at 3.97%, and produced 58 basis points of excess return since inception. He ended with a review of the portfolio characteristics and the sector breakdown.

6. Annual Presentation by Wells Capital Management, Inc. – Fixed-Income Core Manager

Mr. Romero acknowledged Sandy Willen and Tom O'Connor from Wells Capital Management Company (Wells Cap). Ms. Willen thanked the Retirement Board for the opportunity to manage the Plan's portfolio. She provided a brief history of Wells Cap and explained they manage four portfolios for the Plan (Retirement, Health, Death, and Disability) and use the same team, investment philosophy, and investment process for each.

Ms. Willen reviewed the characteristics of the Retirement portfolio. She reported the net contribution was \$270 million, and the return over the eight years since inception was \$621 million, which represents a 5.8% annualized return net of fees since inception and exceeds the benchmark by 99 basis points. She reported the portfolio's ending marking value as of July 31, 2014, was \$892.9 million.

Mr. O'Connor reviewed the drivers for the portfolio's performance and provided a market environment overview. He reviewed the quarterly performance compared to the benchmark and noted the returns have consistently exceeded the benchmark. He commented that should volatility in the marketplace increase, they believe Wells Cap is in a position to take advantage of that through their security selection process. He stated their current positioning is neutral versus the benchmark in terms of interest rate risk, and they have neutral positions over most of the sectors.

At 10:18 a.m. Ms. Edwards left the meeting.

7. Discussion of Request for Proposal for Private Equity Consultant

Mr. Wolfson presented the report to request the Retirement Board interview the four firms for Private Equity Consulting services offering the most competitive proposals: Altius; Pension Consulting Alliance; Portfolio Advisors; StepStone. He explained the responsibility of the private equity consultant and that the current contract would expire on December 31, 2014.

Mr. Poole moved that the Board approve Item 7, seconded by Ms. Bogin.

Ayes: Bogin, Poole, Romero, Rozanski

Nays: None

Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

8. Discussion of Request for Proposal for General Consultant

Mr. Wolfson presented the report to request the Retirement Board interview all four respondents to the Plan's General Consulting mandate. He explained the responsibility of the general consultant and that the current contract would expire on December 31, 2014.

Mr. Poole moved that the Board approve Item 8, seconded by Ms. Bogin.

Ayes: Bogin, Poole, Romero, Rozanski

Nays: None

Absent: Edwards, Ignacio, Levine

THE MOTION CARRIED.

9. Closed Session – Pursuant to Government Code Section 54956.81 to consider the purchase of one particular, specific pension fund investment; and possible action

The item was held to the end of the meeting.

REPORTS FOR REFERENCE

10. Investment Reports for June 2014

a) Summary of Investment Returns as of June 30, 2014

b) Market Value of Investments by Fund and Month as of June 30, 2014

c) **Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of June 30, 2014**

11. Retirement Plan Manager's Comments

Ms. Higgins reported on the following:

- BNY Mellon to Northern Trust transition was moving very well, and they were expecting all transitions to be completed with the next two weeks.

12. Future Agenda Items

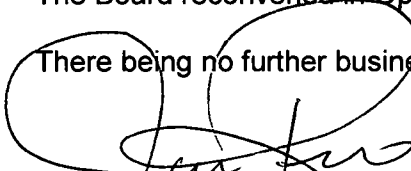

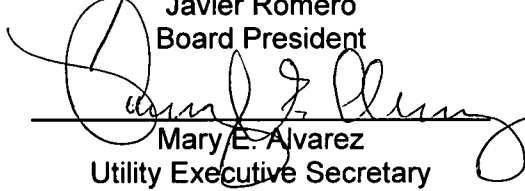
There were no requests for future agenda items.

The Board met in Closed Session at 10:25 a.m. to discuss the following:

9. CLOSED SESSION PURSUANT TO GOVERNMENT SECTION CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF ONE PARTICULAR, SPECIFIC PENSION FUND INVESTMENT

The Board reconvened in Open Session at 10:48 a.m.

There being no further business, the meeting adjourned at 10:49 a.m.

 _____ Javier Romero Board President	<u>2/25/15</u> Date	 _____ Mary C. Higgins Assistant Retirement Plan Manager	<u>for MCH 2/25/15</u> Date
 _____ Mary E. Alvarez Utility Executive Secretary	<u>2/25/15</u> Date		