

Southern California Edison Diversity Firms in Financial Services November 14, 2010 Panel Discussion

Greg Henry
Manager of Investments
Southern California Edison Company

Southern California Edison

- One of nation's largest electric utilities
 - 50,000 square-mile service area
 - 14 million residents
 - 5 million customers

- 2009 Statistics:

– Peak Load	22.1 TW
– Electric Sales	91.7 TWh
– Renewable Energy Supply ¹ (17% of sales)	13.6 TWh

- “Southern California Edison is committed to providing opportunities for diversity firms to participate in its purchasing and contracting activities on a competitive basis.”²

- Areas of diversity focus in financial services:
 - Asset managers
 - Investment banks
 - Commercial banks
 - Other financial and accounting services



1. Highest in the U.S. in percent and absolute amount
 2. Southern California Edison supplier diversity mission statement

Southern California Edison – Diversity Asset Managers

- Edison utilizes diversity asset managers that can perform versus peers
 - Long-term performance potential
- Such managers:
 - Must have clearly articulated investment philosophies and strategies
 - Consistently applied over time
 - Must be able to compete across all selection criteria (organization, people, process, performance, and fees)
- Edison both directly places funds with individual diversity firms as well as manager of managers funding programs
- Edison is currently contracted with ten diversity firms (fourteen mandates) totaling \$530 million in assets (7% of total trust assets — up from 5% in 2009)
- Edison utilizes diversity firm for accounting and audit services in Pension Plan and Nuclear Decommissioning Trusts
- Upcoming mandates include:
 - Small company growth U.S. equity for Pension assets
 - Building bench for future search needs

Southern California Edison – Diversity Asset Managers

- Current diversity asset managers:

	Assets under Management (millions) ¹	Investment Strategy	Diversity Focus	Date of Hire ⁷
RhumbLine ² (NDT)	\$100.0	Equity	African-American	June 2010
Payden & Rygel	\$326.1	Cash and Fixed Income	Women-owned	4/87, 11/92, 1/93
Legato Capital Management	\$20.4	Manager of Managers – U.S. Equity	African-American	June 2007
Syndicated Communications Venture Partners	\$15.0 ³	Venture Capital	African-American	1990
Uni-World Capital ⁶	\$10.0 ³	Private Equity	African-American	July 2008
Credit Suisse (Customized Fund Investment Group—Emerging and Minority Managers)	\$30.0 ³	Private Equity/ Venture Capital	Emerging managers	September 2009
Fairview Capital	\$0.3 ⁴	Private Equity	African-American	1994
Sit/Kim Investments	\$0.4 ⁴	Private Equity	Asian-American	1994
DBL ⁶	\$10.0 ³	Private Equity	Women-owned	November 2009
RLJ Western Asset	\$17.4 ⁵	Public/Private Investment Program	African-American	September 2009

- Of the ten entities, only two have been certified by the CPUC’s Supplier Diversity Clearinghouse
- Dollars under management (excluding RhumbLine) represent 9.8% of Pension, 401(h), and Represented VEBA fund assets and 6.6% of total assets in all of Edison’s trust investment portfolios (including Rhumbline).
- Total assets managed/committed to DBE managers across all Trusts: \$529.6 million

- As of October 31, 2010 – Preliminary
- Pending CPUC approval of the Investment Manager Agreement
- Represents amounts committed to these asset managers’ funds. The asset managers will invest these amounts over the next few years
- Fund fully Invested
- SCE’s Pension Plan committed \$60 million in the RLJ Western Asset PPIP fund. RLJ is African-American owned with a 29% share of the revenues.
- Certified by the CPUC’s Supplier Diversity Clearinghouse
- Approved to be hired

Why Emerging Managers?

- Emergence of quality diversity managers
 - Seasoned and untapped talent pool (proven class of successful executives)
- Diversification of fund managers (diversify traditional asset managers)
- Small and emerging managers have historically outperformed larger funds — both private and public U.S. equity
- Interests tend to be aligned due to significant personal capital invested
- New funds do not have to deal with under-performing assets from prior funds
- Smaller funds tend to be efficient allocators of capital
- Future fund raising efforts depend on current fund performance
- Timing is good in private equity space
 - Better ability to negotiate preferred economics in current fund raising environment
 - Research has shown that investing in emerging funds in post-recessionary years has generated better returns than larger funds

Risks

- Limited track record
- Limited experience working as a team
- Limited institutional/administrative experience
- Limited research and other operational resources

Success Stories

Date Hired	Firm	Assets/Fund Size When Hired by SCE (\$ Million)	Current Assets/Fund Size (\$ Million)	No. of Clients When Hired by Edison	No. of Clients Today (or most recent fund)
1987	Payden & Rygel	\$ 6,300	\$ 56,000	60	300
1990	Syndicated Communications	35	275	7	28
1994	Fairview	90	600	N/A	N/A
2007	Legato ¹	144	1,300	2	9
2008	Uni-World	30	60	3	5
2009	DBL	45	104	10	19

Additionally, many diversity private equity funds invest in diversity owned businesses which can have a significantly multiplier effect.

1. 41% of Legato's Fund of Funds assets are managed by women and minority-owned firms

Outreach

- Conferences
 - RG & Associates Emerging Manager Conference
 - Credit Suisse Emerging Manager Conference
 - CPUC Symposiums
 - Network with peers
 - Consultants
 - Databases (Evestment and Altura)
- Engage specialists such as Legato, Progress, or Credit Suisse to foster those emerging manager relationships—we consider fund of fund managers to be an extension of SCE
- Set trading goals for diversity brokerage
- Open door policy to meeting with managers