

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

MEETING – September 18, 2002

Present:

Javier Romero	President
Dan Mirisola	Vice President
Lilly Calvache	Board Member
Ron Vazquez	Chief Financial Officer
Norma Bertrand	Retiree Member

Absent:

David H. Wiggs (One vacancy)	General Manager
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Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Donna Weisz Jones	Assistant City Attorney
Mike Wilkinson	Deputy City Attorney
Silvia Tesseneer	Recording Secretary

The meeting was called to order at 10:07 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board. He noted Mr. David Wiggs was called to a meeting with the Mayor and may join the Board later if possible. He reported Commissioner Mary Leslie resigned from the Board of Administration. Upon inquiry from President Romero, Mr. Vellon reported there was one request for public comment from Mr. Vince Foley.

PUBLIC COMMENTS

President Romero recognized Mr. Vince Foley

Mr. Foley stated before retiring he was a 21 year member of the Board of Administration. He read a retirement article from the September/October 2000 "Surge, IBEW Local 18", attributing to Mr. by Dan Mirisola the following: "The big news from the Retirement Board is that the Plan is making money, in the last quarter (our first in office) the Plan posted the highest earnings in years, far higher than the low annual growth than the Plan has maintained for years. Part of the increases are due to market changes that have favored the value sector in which we have heavily invested, but a significant increase has come from the changes that we have pushed in our investment

strategy, changes that our professional advisors have been urging for years but that previous Boards had studiously ignored". Mr. Foley also read another retirement article from the January/February 2002 "Surge", attributing to Mr. Dan Mirisola the following: "It is been less than 2 years since we took office on the Retirement Board and we have steered the Plan in the direction that it should have taken many years ago. Under our tenure, our Retirement Plan has moved from a ranking of a sad 93 out of a 114 public plans, to a fantastic number 2 out of the same 114 public retirement plans". Next, Mr. Foley referred to last month's regular Board meeting, where the Board adopted Resolution 03-15, approving the transfer of \$13.5 million from the General Reserve Account to the Reserve for Investment Gains and Losses. He added Mr. Vellon had reported, at the meeting, this was the first time losses have been realized in the history of the Plan. Mr. Foley stated this was the first time, in the 64 year history of the Retirement Plan, that a realized loss is shown in said Reserve. He noted the funds transferred were needed to cover losses for the year ending June 30, 2002. He stated every year, prior to this one, money was transferred from the Reserve for investment Gains and Losses, into the General Reserve, because the Plan had made money by realizing gains.

Mr. Vellon reported items 1 through 3 were submitted for consent approval as follows:

- 1. Approval of Minutes for the August 21, 2002 Board Meeting.**
- 2. Termination from Monthly Rolls as of September 2002;
Retirement Resolution for September 2002
Terminations for October 2002 Family Death Benefit Roll**
- 3. Authority to Purchase Commercial Paper from the List of Approved Issuers.**

Ms. Calvache moved adoption of the above items 1 through 3 on consent. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand
Nays: None

Mr. Vazquez noted, regarding the Public Comments, that not all Board members share the same views with regard to how the Plan is administered now as opposed to how the Plan has been administered in the past. He further noted the views Mr. Foley attributed to a Board member do not necessarily represent the views of all members of the Board.

Mr. Vellon introduced agenda items 4 to 14 to be received and filed as follows:

- 4. Special Board Minutes of August 14, 2002.**
- 5. Benefits Committee Minutes of August 21, 2002.**
- 6. Report of Payment Authorizations as of August 2002.**
- 7. Short Term Investments as of August 31, 2002.**

8. **Stock Portfolio Listing as of August 31, 2002.**
9. **Report on Long Term Investments (Bonds) as of August 31, 2002.**
10. **Security Transactions for the month of August 2002.**
11. **Distribution of Securities by Type and Class as of July 31, 2002.**
12. **Statement of Investments owned as of July 31, 2002.**
13. **Equity Investments as of July 31, 2002.**
14. **Notice of Deaths as of August 2002.**

Vice President Mirisola moved Items 4 to 14 be received and filed. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand
Nays: None

Before going into the next item, Mr. Vellon requested Board members to check if the November 20, 2002 Regular Board meeting day would be a problem for members to meet because of the holidays. He indicated if there is a problem the meeting can always be rescheduled.

Mr. Neil Rue, from the Pension Consulting Alliance approached the table.

15. **Consideration of adoption of Asset Allocation Policy for the DWP Retirement Plan.**
 - a) **Adoption of asset allocation structure consistent with acceptable levels of risk.**

Mr. Vellon stated there are 2 decisions the Board might make today. One is to adopt the asset allocation structure Board members might think is more appropriate for the Plan. The second one is adoption of an implementation plan (suggested by both Mr. Romero and Mr. Mirisola) to have the adopted asset allocation structure in place by January 2, 2002. He noted Mr. Neil Rue is present to summarize the situation and to answer questions.

Mr. Vazquez expressed his concern regarding Portfolio Number 7, recommended for adoption by PCA. He noted he is not comfortable at the present time, because of some of the asset classes, specifically Real Estate. He asked Mr. Rue to explain the difference between Portfolio Number 7 and Portfolio Number 10 (which had no Real Estate exposure). Mr. Rue explained, from an expected risk/return perspective, there is not a material difference between these portfolios. He added there is a trade off between what is in Domestic Equities and Real Estate. Mr. Vazquez expressed he would be more comfortable with Portfolio Number 10, in terms of his knowledge of investment vehicles that the Board would be making allocations to.

Ms. Bertrand expressed her concern regarding the reduction in Cash under Portfolio Number 7, considering the DWP Plan is a mature Plan.

Mr. Rue commented on the Board's concerns, moving from a 2 or 3 asset class structure (cash, stocks and bonds) the Board has now, to a portfolio with more asset classes (i.e., alternative investments, international equity, real estate) represents a material reduction in risk as measured by downside deviation. He explained in order to manage or reduce the risk, the Board needs to get the benefits of diversification, and adopting either Portfolio 1, 7 or 10 would do that job. He indicated Portfolio Number 1 has an expected return somewhat below the Board's long-term actuarial return of 8%. He added portfolio Number 7 has allocations to real estate, alternative investments, bonds, and has 5% more on domestic stocks than the Portfolio Number 1, and Portfolio Number 10 is a return oriented portfolio. He advised, if the Board wants to reduce risk, diversification is going to pay off. Mr. Rue further noted PCA would not advocate for the Board to invest in either real estate or international investments without an appropriate comfort level and without an appropriate level of education on the Board's part. He indicated PCA can work with the Board on educational issue by bring to the Board their real estate experts, which are considered to be amongst the best in the country, or bringing other expertise outside their firm. Mr. Rue stated there are benefits to real estate and international investments. He explained, for instance, real estate will provide income/cash flow, incrementally probably higher than bonds.

In response to Ms. Bertrand's concern regarding the reduction of cash, Mr. Rue explained most of the asset classes suggested have liquidity, and there are ways to invest in domestic equities which are fairly highly liquid. Mr. Rue stated the Plan is sacrificing return by having 12% cash on a long-term basis in the current portfolio, but recognized, at the present time cash has helped Plan performance. He noted Portfolio number 7 has 35% in fixed income and 4% in real estate, which both are income generating asset classes, and these two assets, combined would produce more income than the cash is, which would offset the 1% cash allocation PCA recommended under Portfolio number 7.

Mr. Vellon commented, and wanted on the record, alternative investments carry a much higher risk than the other asset classes the Board is used to. He reiterated, when one has a more risky asset class in a mix, one can reduce risk by balancing it out with another asset class, but the fact remains, alternative investments carry a lot more risk than the Board is used to seeing. Mr. Rue agreed with Mr. Vellon in his statement that alternative investments is a high-risk asset class. He then explained the reason alternative investments is on these portfolios is not to reduce risk but to produce return. Mr. Rue stated in order to invest in either real estate or alternative investments, there has to be a lot of education, discussions and knowledge gathered before investing. He added both are complex asset classes, they are inefficient market classes but they are useful to an institutional portfolio.

Mr. Vazquez stated with the education on those particular asset classes the Board will receive, he is comfortable enough to do it. Ms. Bertrand stated she still is very concern.

Mr. Rue proceeded to hand out a bound report with information on different types of investment instruments at the request of Vice President Mirisola. Mr. Vazquez expressed his understanding that if the Board adopted Portfolio number 7, they will keep evaluating the different assets and if the Board decides that any kind of assets is not for the DWP Retirement Board, then they can adopt something else. Vice President Mirisola, and Ms. Calvache agreed with Mr. Vazquez. Mr. Mirisola further explained, for instance, the 4% allocated to Real Estate could be moved to Domestic Equity. Vice President Mirisola then inquired from Attorney Jones whether the Police and Fire Department Pension Plans have investments in Real Estate. Attorney Jones responded they do. Mr. Rue commented that LACERS carry 2% cash in their portfolio and they have approximately 5% in alternative investments, 5% in real estate. He indicated these two asset classes are managed by 2 separate consulting firms, in addition to a general consulting firm. After some more discussion Mr. Mirisola moved approval of Resolution 03-09 adopting Portfolio structure number 7. Seconded by Ms. Calvache and carried by majority after the following vote:

Ayes: Romero, Mirisola, Calvache and Vazquez
Nays: Bertrand

Mr. Vellon noted a minor correction on the table on page 15a.3, it should read "Alternative Investments" instead of "Alternative Estimates".

b) Implementation schedule for adopted asset allocation structure to be in place January 2, 2003.

Mr. Vellon reported this item represents a schedule President Romero and Vice President Mirisola had requested for implementation of the Portfolio adopted. He explained the adoption of Resolution 03-19 would put everything in place by January 2003. Vice President Mirisola explained there are 12 meetings in the schedule and also there are 12 open dates for possible meetings, which allow room for flexibility. President Romero noted his goal is to have everybody involved.

Attorney Jones reminded Board members they should keeping mind the Board agenda has to be posted at least 24 ours before each meeting.

Mr. Vazquez inquired as to why the urgency to have this done by January, versus what had been recommended by PCA. President Romero responded, as it is, the Board is already late, and PCA has made several recommendations on what needs to be changed. Mr. Vazquez stated he is committed to doing changes, but he needs to be comfortable when making decisions. Ms. Calvache also stated she wants to be committed to this project, but she doesn't want to make a decisions if she does not have a full understanding and adequate education is in place before she takes any kind of action.

Mr. Rue stated PCA also needs to react to the proposed schedule. He added he agrees with what Ms. Calvache stated and he knows the next step is to study the asset classes relatively hard before hiring Managers. He explained the schedule refers to "Asset Classes 1, 2 & 3" and these would be prioritized according to the Board's preference in whatever order of assets classes the Board chooses. Mr. Rue's

recommended a priority asset class could be “international equities” since it would be pretty straightforward to go through the implementation process. For the other two asset classes to prioritize he noted there are existing vendors and there are going to be some dynamics that might take a little bit more time to implement. He stated his recommendation, in terms of the order of the asset classes, is international equity first, domestic equity second and core fixed third. Regarding the core fixed income, Mr. Rue explained that it might vary, adding some international fixed income, but that, ultimately, it depends on the advice Managers give to their clients.

More discussion ensued and Mr. Mirisola moved approval of Resolution 03-19 adopting an implementation schedule. He explained the Board’s attorney had advised the City Charter requires the Board diversify and the Plan is not in compliance with appropriate diversification standards. Ms. Bertrand expressed she wanted to find out whether the Plan was in compliance or not, and, if the Plan was in compliance, she didn’t understand why the rush on the schedule. Mr. Mirisola expressed his opinion that having meetings every two weeks on this important issue is not productive.

Attorney Jones interceded, stating that under the Charter and the California Constitution, the Board is responsible for the administration of the Plan and one of the Board’s fiduciary duties is to administer the Plan in a prudent fashion. She explained what they had brought forward to the Board, in the past year, had been the need to have diversification and having money managers. She advised the majority of the Pension Plans have diversified portfolios and have several money managers. She noted the present Plan had a lot of money invested on value (or growth) style, and what Mr. Emkin is advising is small cap and large cap, and what the Board needs to decide is what percentage they want to go into any of the different asset classes.

Mr. Vazquez expressed that in his opinion our present Plan is diversified, in that there are investments in stocks, fixed income and cash. Attorney Jones agreed with Mr. Vazquez in the sense that the Plan has diversification in the stocks.

Mr. Vazquez stated that he has not checked his calendar, PCA has to also check their calendar, Ms. Bertrand and Mr. Wiggs also have to check their calendar. More discussion ensued and Mr. Mirisola’s motion was seconded by Ms. Calvache and carried, by majority, after the following vote:

Ayes: Romero, Mirisola and Calvache
Nays: Bertrand and Vazquez

Mr. Foley raised a point of order in that investment decisions require 4 votes. Attorney Jones proceeded to explain 4 votes may be necessary. Discussion ensued as to whether the Board action is limited to adopting a meeting schedule. Mr. Vazquez suggested to strike the last phrase of paragraph 6 which reads “such that the Board’s asset allocation policy is fully in place by January 2, 2003”. It was the consensus to so proceed and the motion just voted on was ruled void. Mr. Mirisola then moved approval of Resolution 03-19 as amended by Mr. Vazquez. Seconded by Ms. Calvache and carried by majority after the following vote:

Ayes: Romero, Mirisola, Calvache and Bertrand

Nays: Vazquez

Mr. Vazquez noted he is in favor of making a commitment to adopt this schedule.

Mr. Rue was excused and left.

16. Consideration of draft language for technical Plan amendments providing for acceptance of rollovers as permitted by the Internal Revenue Service Code and California Statutes.

Mr. Vellon stated this Item 16 has to do with a technical amendment to the Plan, specifically permitting rollovers for payment of "other Governmental Services" (OGS). He noted this item basically implements the ability of the Plan to receive rollovers under the new federal tax laws as adopted by the State of California and also encourages the City Attorney to draft language to permit employees to pay for the purchase of Other Governmental Service on a "pre-tax" basis, since the Plan currently in place is "post-tax". He explained, if this resolution is adopted, it will go to the Board of Commissioners for consideration at their October 1, 2002 agenda. Mr. Vellon then recommended approval of Resolution 03-20. Vice President Mirisola moved adoption of Resolution 03-20. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand

Nays: None

Mr. Paul Angelo approached the table.

17. Consideration of draft Plan language proposed by the board's Counsel for the implementation of the Retirement Plan changes recently negotiated between DWP and Local 18.

Mr. Vellon noted the final language implementing Local 18 MOU was prepared by Attorney Donna Jones. He further explained the Board had acted on this amendment in concept, at their June 19, 2002 Regular Board meeting to expedite the process. Mr. Vellon reported Attorney Jones suggested this item be on this agenda for ratification, since the draft language has been finalized. He added these changes would also be submitted to the Board of Commissioners for consideration at their October 1, 2002 agenda. Attorney Jones clarified the Actuarial report for these amendments was presented to the Board of Commissioners, because they are obligated, under state law, to know how much a new or modified benefit would cost. She explained the actuarial report presented to the Board of Commissioners encompassed all members of the Plan, not just Local 18. She explained she wanted to make sure, when and if the Plan agrees further amendments for other Unions, the Actuarial studies (done by Segal Company) would have included all members of the Plan and further Plan language can be completed as a technical amendment, without the need for further actuarial reports.

Mr. Angelo explained his actuarial studies included cost by dollar amount and by percentage. He added the percentage cost can be applied to either the entire payroll or to any group within the payroll. He stated the dollar amount can be obtained by taking

the percentage and applying it to the entire payroll. He indicated he received clarification from the bargaining parties (after the last Board meeting) that the intent of the negotiations was consistent with the 3.95% actuarial cost report. He explained the negotiating parties had agreed, that the only members who are eligible for the 2.3% benefit are those who meet the "55/30" rule, who are eligible to receive an unreduced benefit. He noted, for the record, members who retire at age 62 don't qualify for this 2.3% benefit unless they meet the 30-year requirement.

A member from the public (Mr. T. J. Mastros, IT staff) requested clarification if 30 years of service credit includes OGS. Vice President Mirisola answered in the affirmative. He then moved approval of Resolution 03-21 modifying the Plan language for Local 18 members. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand

Nays: None

Mr. Angelo was excused and retired to the audience.

Mr. Vellon indicated the City Attorney's Office had been given this assignment around September 10 and they worked diligently on the Plan language and other documents and were able to meet the deadline. President Mirisola thanked Ms. Jones and Ms. Curwen for their great assistance in this matter.

18. Retirement Plan Manager Comments.

a) Legal Opinions received.

Mr. Vellon noted there were no legal opinions.

b) Status report on Legal counsel RFP process.

Mr. Vellon reported the Retirement Office received 6 responses to the RFP for fiduciary outside legal counsel. Vice President Mirisola suggested to interview all 6 law firms and it was the consensus to so proceed. Mr. Vellon noted the deadline for the RFP response was August 30, 2002 at 3:00 p.m. and one proposal was received at 3:03 p.m., but was accepted due to possible minor differences between clock times.

c) Update on Plan Data Collection Project

Mr. Vellon reported a "blue print" of the project was included in the agenda packet. He indicated after meetings with staff it was reported major parts of the project could not even be started until 2004 and, on that basis, it was recommended the effort to do the project internally be abandoned, and a request for proposal be drafted for an outside consultant to do the project more timely. He reported the clerical staff assigned to the project was reassigned and will be involved with the implementation of the MOU changes. He added the person originally assigned by IT was reassigned by IT and will be working (with IT staff) on the other projects for the Retirement Office, such as the Pension Payroll. President Romero thanked Ms. Park and the rest of the staff for their efforts.

d) DWP Plan Newsletter for retirees (August 31, 2002 Edition).

Mr. Vellon reported the August 31, 2002 Newsletter for DWP retirees was included in the agenda packet.

e) Active employees newsletter being developed to reflect new MOU changes, etc.

Mr. Vellon reported staff is currently working on the active employees newsletter.

f) General items.

Mr. Vellon indicated there were no general items to report.

Ms. Bertrand inquired of Mr. Vellon if he would be available for a presentation to the retirees on October 12, 2002. Mr. Vellon reported that this issue had been resolved, and Ms. Bhatia, Assistant Manager, would be attending the meeting along with Board members Romero and Mirisola. Ms. Bertrand clarified the activity is only for staff and not for Board members. .

The Board meeting was adjourned at 11:30 AM

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary