

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

MEETING – January 15, 2003

Present:

Javier Romero	President
Dan Mirisola	Vice President
Lilly Calvache	Board Member
Annie E. Cho	Commissioner
Ron Vazquez	Chief Financial Officer

Absent:

David H. Wiggs	General Manager
Norma Bertrand	Retiree Member

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Ellen Shimamoto	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney

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.

President Romero inquired if there were any public comments and there were none.

Mr. Vellon reported items 1 and 2 were submitted for consent approval as follows:

- 1. Approval of Minutes for the December 18, 2002 Board Meeting.**
- 2. Termination from Monthly Rolls as of January 2003:
Retirement Resolution for January 2003**

Ms. Calvache moved adoption of the above items 1 and 2 on consent. Seconded by Mr. Mirisola and carried unanimously after the following vote:

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

Mr. Vellon reported items 3 through 11 were submitted to be received and filed as follows:

- 3. Report of Payment Authorizations as of December 2002.**
- 4. Short Term Investments as of December 31, 2002.**
- 5. Stock Portfolio Listing as of December 31, 2002.**
- 6. Report on Long Term Investments (Bonds) as of December 31, 2002.**
- 7. Security Transactions for the month of December 2002.**
- 8. Distribution of Securities by Type and Class as of November 2002.**
- 9. Statement of Investments owned as of November 2002.**
- 10. Equity Investments as of November 30, 2002.**
- 11. Notice of Deaths as of December 2002.**

Mr. Mirisola moved the above items 3 through 11 be received and filed. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

12. Reconsideration of criteria for the selection of Investment Managers.

Mr. Vellon reported item 12 was submitted at the request of Mr. Wiggs, who could not be present at the meeting and Mr. Vazquez would be giving a brief presentation.

Mr. Vazquez indicated he sent an e-mail to the Board members regarding item 12. He explained the policy of the City of Los Angeles, as well as the Department's, is to be inclusive in the awarding of contracts to include women and minority businesses. Mr. Vazquez stated the criteria set by the Retirement Board for the selection of fund managers is exclusive of minority firms and he was asked by Mr. Wiggs (DWP General Manager) and others, to bring this item to the Board for consideration of expediently adopting a contracting policy similar to that of the City and Department and it be incorporated in the present search for fund managers. He added DWP's policy, as well as the City's, is meant to include all firms (women and minorities), but only to the extent they qualify and are held to the same standards in terms of performance levels. Mr. Vazquez expressed, regarding fund management, there are a number of well-qualified women and minority firms that should be considered for this process.

President Romero inquired how does DWP's policy exclude any minorities, adding the Board was open to any firm who met the qualifications. Mr. Vazquez responded the established criteria for several of the portfolios require such extensive volumes being managed, it excludes many of the large and smaller firms. President Romero expressed he was still not clear on how the Board's present criteria was exclusionary, inquiring if it was the size of the assets the firm manages that is excluding them, insurance, or what specifically. Mr. Vazquez responded the asset sizes are the largest problems, but there are others. He indicated a discussion with Pension Consulting Alliance (PCA) was necessary, in terms of the criteria, to ascertain why a lot of qualified firms are excluded from participating in the RFPs. Mr. Vazquez also recommended if a policy was adopted, the outstanding RFPs be amended.

Ms. Calvache expressed she was still unclear on what exactly the Board is not doing to reach women and minority firms, stating she was under the impression everything was done in the RFP process to include all firms. Mr. Vazquez responded the women and minority firms could not qualify with the current asset management criteria established. President Romero reiterated more clarity was necessary and commented PCA made the recommendation, which the Board adopted several months ago, and the Board specifically questioned PCA on the amount of assets required. He stated PCA responded, because of the size of DWP's Plan, (approximately \$5.5 billion), the Board would be putting the Plan at higher risk by lowering their criteria. President Romero added, his view on this matter is, from a fiduciary viewpoint, the present standards were not set by the Board but by PCA, and the Board did specifically ask if the criteria was excluding the smaller companies. He noted PCA specifically expressed this was the minimum criteria acceptable for the size of DWP's Plan.

Commissioner Cho expounded on what Mr. Vazquez reported, stating it was not so much as reducing the standards, but the fact this matter was brought to the attention of the Board of Commissioners. She added the existing wording in the RFP preclude some of the smaller firms, of women and minorities, from applying, and the Board should amend the RFP to include everyone.

Mr. Vazquez clarified, from his reviewing of the minutes from the last meeting, regarding the criteria, PCA stated it would exclude many of the firms from being able to respond to the RFP and thereby reducing the number of responses. President Romero inquired if PCA's statement was in regards to the insurance requirements. Mr. Vellon responded, as a result of a conversation with Mr. Wiggs, yesterday, he learned there had been conversations between Mr. Emkin (PCA) and Mr. Lombard (President of the Board of Commissioners) generating new information President Romero may not have heard from PCA, which would help clarify the issues involved. President Romero expressed PCA had not conveyed to him any changes in the requirements and the records show they were very adamant as to what minimum requirements the Board should have. He added there were already interviews scheduled as a result of the first RFP issued and attempting to make changes midstream causes him some concern.

Ms. Calvache inquired if PCA was present at today's meeting in order to provide more information and to answer the Board's questions. Mr. Vazquez explained the City and the Department have a policy with regards to providing all sizes and types of firms with the opportunity, based on the diversity of the Los Angeles area and the awarding of contracts should reflect this diversity. Mr. Mirisola inquired if the policy had already been drafted. Mr. Vazquez responded there was an existing written policy the City and the Department have adopted through a resolution adopted in 1985 (amended in 1991) and an executive order outlining this policy. He then recommended the Board consider adopting a similar policy and add it as an agenda item for the next Board meeting, meanwhile he would work with Mr. Vellon on drafting the policy for consideration. Mr. Vazquez also suggested having PCA address the issue at the next Board meeting with regards to the RFP currently outstanding which excluded smaller qualified firms.

President Romero expressed the Board needed to further discuss why minorities are not able to bid, before drafting any policies, because before even developing the RFPs, there were specific questions asked and the Board was told this was the minimum requirement for the size of the fund. He added the Board subsequently agreed, as a whole, to safeguard the Plan. President Romero added, to his knowledge, the language in the RFP does not exclude qualified minority firms who equally meet the criteria and to change the standards midstream concerns him from a fiduciary standpoint. He stated he supports the MBE/WBE policies and perhaps this can be used for hiring consultants, actuaries, etc., but he interprets his obligation is to hire the best and brightest, and safeguard the Plan with the most stringent requirements possible, and to lower those requirements would be doing a disservice to the contributing members.

Mr. Mirisola recalled Mr. Vellon and himself explicitly stated the limits set were extremely high and Mr. Emkin's (PCA) response was this is the industry standard and what was prudent to do in order to acquire the most qualified people. He stated Mr. Vellon had pointed out it would exclude a lot of smaller firms and Mr. Emkin responded PCA was aware of this. Mr. Mirisola alluded to an issue discussed at the last Board meeting relative to changing the legal services RFP. He explained some Board members were considering allowing someone to deviate from the original RFP terms and Commissioner Cho convinced the Board the Plan must be run like a business and stick with the original RFP guidelines. He therefore emphasized he is not in favor of revising the RFP and does not feel comfortable changing it in midstream. He added he was aware the RFP could be amended, but Counsel advised strict compliance was necessary and the Board must adhere to the conditions and terms of the RFP.

Commissioner Cho expressed her being uncomfortable with the phraseology of "lowering the standards" when commenting on women or minority owned businesses. She added, she feels the Board is on the same page regarding the integrity of what is being said, but, for the record, the Board is not lowering the standards or criteria, but being more inclusive of the smaller and all qualified firms.

Mr. Mirisola stated he agreed with Ms. Cho, but one of the reasons the women and minority firms have not been able to qualify to answer the RFP is the amount of assets under management is too high. He added, he agreed with Mr. Vazquez that a smaller company with a smaller amount under management can do a good job, however, the smaller the number of assets under management the less likely the Board will be able to see if the firm is capable of managing the amount of money in DWP's fund at the same level. Mr. Mirisola emphasized his responsibility as a fiduciary is to manage the Plan's assets for the benefit of the beneficiaries and to protect the assets for the Department, and nowhere does the Plan state there is an obligation to fulfill Department or City policies on social issues. He further expressed he felt uncomfortable moving money into something that goes beyond his fiduciary responsibilities, stating the prudent man rule the Board is held to under ERISA, federal statutes, and the state constitution requires the Board manages the money as if it were theirs, and he would not give his money to someone based on a lowered criteria.

Mr. Mirisola suggested the Board should have a more in depth discussion with additional information provided by Mr. Emkin (PCA). Mr. Vazquez suggested having the discussion at the next Board meeting. He also clarified the issue discussed at the last Board meeting regarding a late response to the legal services RFP, is a totally different issue than the present one, because the RFPs still open would be changed for all the firms and not just one.

More discussion continued among the Board members and Mr. Vellon commented, since PCA representatives have been in contact with Messieurs Lombard and Wiggs, they may be able to present some ideas to assist the Board with the concept, as opposed to the mechanics. Mr. Mirisola expressed his concern regarding Mr. Emkin discussing the Plan with anyone outside of the Board, because the contract is with the Board, and outside contact politicizes the process. He added, the Charter is very clear in separating the Board from the Department, and making them equal partners. He warned the Board would lose credibility if it allowed outside political appointees to provide direction on criteria and policies. Mr. Vazquez responded, he did not feel the discussion between PCA and Mr. Lombard had anything to do with direction, rather certain vendors who were excluded from the process contacting Mr. Lombard and he, in turn, contacted Mr. Emkin and asked what was in the current process precluding certain firms from bidding on the RFP. President Romero expressed he understood the views of both Mr. Mirisola and Mr. Vazquez, but the correct protocol would have been for Mr. Lombard to come to him regarding the issue, as President of the Board, and to totally eliminate the leadership of the Retirement Board leaves a bad flavor.

Commissioner Cho inquired why the PCA representative was not present at the meeting today for this item. Mr. Vellon responded there were attempts by President Romero and Mr. Mirisola to reach Mr. Emkin, to request his presence at the meeting, but he failed to return their calls.

President Romero suggested extending an invitation to Mr. Lombard to address the Board at the next meeting regarding the issue. He proposed putting the issue under an agenda item for the next Board meeting. Mr. Vellon reminded Members, Mr. Emkin had reported more than a hundred responses were in for the first RFPs and these were being screened for the first interviews January 29, while the next regular meeting was schedule for February. He then inquired if Board Members desired a special meeting be scheduled to discuss this issue while allowing Mr. Emkin to continue the process. President Romero indicated he was not in favor of slowing down the process and there should be a special meeting scheduled. Mr. Vazquez suggested having a special Board meeting as soon as this could be accommodated.

13. Staff update on compilation of Retirement Plan Policies and Procedures.

Mr. Vellon reported the compilation of Board policies and past practices have been initiated by Mr. Tony Pech. He emphasized different benefit areas will be completed during the next several months and ultimately there will be a volume available for reference by existing and new Retirement Plan employees. Mr. Vellon noted this will be a very important document for the Plan and progress report will be presented to the Board.

14. Retirement Plan Manager's comments

a) DWP Plan Newsletter for retirees (January 1, 2003 Edition).

Mr. Vellon reported the Board had already received a copy of the January 1, 2003 Newsletter for DWP retirees.

b) Board Election Update.

Mr. Vellon reported the election for the active employees was underway, 8 people requested nomination papers and 5 were submitted. He added President Romero will run unopposed.

c) Participation as speakers in the Public Funds Summit, March 9-12 2003 (Javier Romero, Duamel Vellon; no cost to the Plan).

Mr. Vellon reported he and President Romero were invited to speak at a Public Funds Forum sponsored by the Information Management Network (IMN) at no cost to DWP.

d) General items.

Mr. Vellon reported, under the leadership of Ms. Shimamoto, staff was able to generate the 1099Rs for retirees and these were being mailed today. President Romero expressed his gratitude, on behalf of the Board, to Ms. Shimamoto and the Retirement staff for their commitment to customer service.

Mr. Mirisola proposed sending staff on an educational seminar by the International Foundation regarding the updating of websites and computerization. He also inquired of Attorney Wilkinson, where the City Attorney's office stood on the pre-tax program for purchase of other governmental services (OGS) because Attorney Curwen previously stated the Board would have it before January. Mr. Mirisola added, the policy needed to be adopted so current contracts could be revised and pre-tax programs could be implemented in accordance with the Tax code. Attorney Wilkinson indicated he would look into this and it was the consensus to include this item on next month's agenda for discussion.

Mr. Vazquez requested a possible change in the DWP funding for investment manager fee, for the next fiscal year, be added to the next regular Board meeting agenda. He also requested Mr. Vellon have some figures developed showing what the Board could anticipate the management fees to be, compared to what they have been previously, on an annual basis.

The Board meeting was adjourned at 10:55 AM

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary