

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

MEETING – May 21, 2003

Present:

Javier Romero	President
Dan Mirisola	Vice President
Ron Vazquez	Chief Financial Officer
Norma Bertrand	Retiree Member
Lilly Calvache	Board Member
David H. Wiggs	General Manager
Annie E. Cho	Commissioner

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Donna Weisz Jones	Assistant City Attorney
Allan Emkin	PCA
Joe Silver	Merrill Lynch
Paul Angelo	The Segal Company

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 stated, for public record, and to inform the Board members, Mr. Vellon was recognized by City Council for his efforts and diligence in administrating DWP's Retirement Plan. He also suggested the DWP photographer present take Board pictures for possible publication of this event.

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

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

- 1. Approval of Minutes for the April 16, 2003 Board Meeting.**
- 2. Approval of Special Board Minutes of April 30, 2003.**
- 3. Termination from Monthly Rolls as of May 2003:
Retirement Resolution for May 2003.
Appointment of Trustee for Lynne M. Kelsey (disabled adult).
Termination from the May 2003 Survivorship Roll: Thelma Nitzberg and Josephine R.**

Pena – death

Termination from the April 2003 Family Death Benefit Roll: Christina Santos and Evelyn O. Santos – attained 18 years of age.

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

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

- 4. Report of Payment Authorizations as of April 2003.**
- 5. Short Term Investments as of April 30, 2003.**
- 6. Stock Portfolio Listing as of March 31, 2003.**
- 7. Report on Long Term Investment as of March 31, 2003.**
- 8. Security Transactions for the month of April 30, 2003.**
- 9. Distribution of Securities by Type and Class as of March 31, 2003.**
- 10. Statement of Investments owned as of March 31, 2003.**
- 11. Equity Investments as of March 31, 2003.**
- 12. Notice of Deaths as of April 2003.**
- 13. Compilation of Retirement Board Policies – Disability Benefits.**
- 14. Consideration of amendment to the Water and Power Employees' Retirement Plan to add a new Section III (a) (10) to provide payment of an attendance fee for the appointed retired member of the Board of Administration (retroactive to May 21, 2002).**

Mr. Vellon noted item 13 represented the compilation of the Retirement Board policies on disability benefits. He added, at the last meeting, the death benefits policies were adopted/compiled, and at the next Board meeting staff will present the retirement policies. He also commented item 14 represented the official language submitted to the Board of Commissioners to permit a small retroactive stipend for the retired member of the Board. Mr. Vellon then proposed items 4 through 14 be received and filed.

Ms. Calvache moved the above Items 4 through 14 be received and filed. Seconded by Mr. Wiggs and carried unanimously after the following vote:

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

President Romero noted the compilation of the Retirement Board policies represented hard work. He commended Mr. Pech for his efforts in this endeavor.

15. Consideration of legal advice by the City Attorney's Office relative to the recording of Retirement Board Members (and Committee members) abstention as "yes" vote.

Mr. Vellon explained this Item represents legal advice received, concluding the Board member abstentions would be recorded as a "yes" vote. He stated the City Attorney's office had reviewed and confirmed this, even for small Board Committees [where two members represent quorum].

16. Reconsideration of Responses to the Plan's Request for Proposal (RFP) for Large Value Domestic Equity and possible additions to the list of managers invited for interview.

Mr. Vellon explained item 16 was placed on the agenda at the request of Mr. Wiggs. He stated seven firms had been selected for interview by the Board and these were contacted and scheduled for June 11, 2003. Mr. Vellon indicated there were two requests for public comments regarding this item, one from Mr. Silver (Merrill Lynch) and the second from Mr. Simpkin (MFS).

Mr. Vellon noted, for the record, a report from PCA was received on May 19th, summarizing the information submitted by the seven finalists and Mr. Emkin would be addressing the Board on this information today.

Mr. Joe Silver of Merrill Lynch approached the podium.

President Romero recognized Mr. Silver.

Mr. Silver indicated he would be specifically addressing the Large Cap Value equity mandate in Merrill's response to minimum qualification #7. He noted it states, "does the firm have at least three existing portfolios in the selected mandate with the following minimum requirement of \$250 million for large cap strategies". Mr. Silver explained, upon reviewing the candidate list first presented at the April 30th Board meeting (in which 17 of 25 firms indicated they met all the minimum qualifications) and knowing Merrill Lynch (and their large cap equity strategy) has \$4.5 billion under management, his associates determined they should have included their pooled portfolios along with their separate account portfolios.

Mr. Silver referred to the handout he distributed to Board members, pointing out Merrill does have three portfolios at \$250 million each. He reported, based on this information, Merrill compared their performance to the list of candidates up for finalist interviews, and in six out of the last seven years, Merrill has delivered the best performance. Mr. Silver then compared Merrill's performance versus several of their equity peer groups, indicating they ranked in the top 25%, and during the 1, 3, 5 and 10 year periods, Merrill had beaten the Russell 1000 value index benchmark.

Mr. Silver emphasized Merrill acted in good faith when addressing the minimum qualifications. He indicated his company does meet the #7 qualification, with three

portfolios of \$250 million, and reiterated the firm has consistently delivered superior performance. He stated, based on these facts, Merrill requests the Board reconsider the firm as a finalist for the upcoming large cap value interviews.

Mr. Silver returned to the audience.

Commissioner Cho arrived at 10:15 a.m.

Mr. Stephen Simpkin of MFS approached the podium.

President Romero recognized Mr. Simpkin.

Mr. Simpkin stated, it has come to MFS's attention, through DWP's website, the Retirement Board is reconsidering the large cap value managers for the upcoming finalist interviews. He indicated, since the Board's first approval of the list of finalists for the large cap value, MFS finished very close to making the final list, based upon PCA's ranking. Mr. Simpkin reported MFS is structurally the same, their large cap value team is still in place and nothing has changed to jeopardize their ability to meet the Board's minimum requirements. He stated, if the Board does decide to add firms or replace an existing firm on the finalist list, MFS requests the Board's consideration for the upcoming final interviews.

Mr. Simpkin returned to the audience.

President Romero inquired what Mr. Emkin's (PCA) thoughts were regarding this issue.

Mr. Wiggs expressed he had been concerned all along that Merrill did qualify, and stated he called Mr. Emkin to inquire what the Board should do in finding out if the seven firms identified for interview actually do qualify or should they take them at their word. He also suggested, in the future, the consultant should validate whether or not the firms do meet the minimum qualifications, because mistakes can be made in qualifying or not qualifying. Mr. Wiggs indicated he had requested PCA validate if the seven firms do indeed meet the minimum qualifications and to report to the Board in writing. He stated this prompted Mr. Emkin finding issues with two of the seven firms.

Mr. Emkin noted, in the RFP, there is a section wherein the managers are required to certify their compliance with the minimum criteria. He indicated it is the manager's obligation to answer, in a forthright manner, to the best of their ability. He clarified, possibly due to a misunderstanding, Merrill's response caused them to fall outside of meeting the criteria. Mr. Emkin indicated it was important for the record to reflect this was not a mistake made by PCA, staff or the Board. He stated when this was brought to his attention by Mr. Wiggs, he notified the Board Chairman of what he was going to do and then called all the managers, requesting they reduce to writing their compliance with the minimum criteria established by the Retirement Board. Mr. Emkin noted those written responses had been submitted to the Board and the overall majority of responses say the firms continue to comply, two have technical issues, and one of the managers (LSV) appears not to be in compliance. He indicated LSV redid their checklist "compliance form" and indicated it was not practical for their firm to participate in

affirmative action, but they would try to comply with the insurance provisions.

Mr. Emkin expressed his surprise in missing this noncompliance, stating PCA checked the original form submitted and this information was not given.

Mr. Wiggs suggested the RFP be more precise as to what the minimum requirements are, leaving no room for misinterpretation. He recommended if LSV does not meet the insurance requirements, the Board may not want to interview them and, instead, replace them with Merrill Lynch and also include MFS.

Mr. Emkin suggested, as a public agency, the Board needs to make sure the process is fair and, if they allow one firm to amend their original response, the same opportunity should be offered to the other parties as well. He indicated there may be firms who did not respond to the initial RFP, because they felt they did not meet the Board's requirements.

More discussion ensued and Mr. Vazquez expressed he did not feel the Board needed to reissue a public RFP, but should just deal with the 25 that have already responded to the initial one. He noted, since the Board had just received a corrected response from Merrill, this leaves 17 firms to solicit any corrections from what they had initially submitted. Mr. Vazquez stated, given the return data presented by Merrill and the validation they do meet the minimum criteria, from a fiduciary standpoint, he does not think they should be excluded from the interview process.

Ms. Calvache expressed she had mixed feelings, since at the last Board meeting there was discussion regarding how many firms to interview. She stated there were currently enough finalists without making exceptions, and inquired if changing the process would impact those firms who would have wanted to bid, but did not, due to the initially published criteria. Mr. Vazquez indicated all firms were allowed to bid, whether they met the qualifications or not. He then suggested limiting any follow-up to those firms who responded to the initial request. Mr. Emkin stated his recollection was somewhere in the body of the RFP there is a section stating the Board reserves the right to waive certain conditions.

President Romero inquired if the Board went with the six finalists as Ms. Calvache suggested, would these be acceptable to the Board. Mr. Emkin responded all six candidates were ranked as acceptable by PCA. He stated the process, and how many managers to interview, is at the discretion of the Board.

Mr. Vazquez inquired what Mr. Simpkin of MFS was trying to say in his comments to the Board. Mr. Emkin indicated, his interpretation was if the selection (for interviews) was being reopened, MFS would be the next firm on the list to be chosen if any firm was eliminated; or if the Board were going to interview more candidates, they request the Board's consideration based upon PCA rankings. Mr. Emkin inquired if his interpretation was accurate. Mr. Simpkin responded in the affirmative. Discussion continued among the Board members regarding allowing Merrill Lynch to participate in the interviews.

Mr. Mirisola expressed he was uncomfortable with the Retirement Board's process. He stated, following the last meeting, when the top seven finalists were chosen, PCA representative, Dr. Sarah Bernstein, indicated she was approached by Mr. Silver, requesting PCA research, (the seven firms chosen to interview) on whether or not they met the minimum qualifications of the RFP.

Mr. Silver approached the podium.

President Romero recognized Mr. Silver.

Mr. Silver clarified, what he asked Dr. Bernstein, was based on the asset levels of the other firms (versus Merrill Lynch) and what was the context under which they met the minimum qualifications.

Mr. Mirisola indicated Dr. Bernstein relayed to him, Mr. Silver had requested PCA research the seven finalists firms. He then stated he felt this was an attempt by Merrill to get a second chance at DWP's business, however, it was an undue use of the Board's resources with their consultant, and PCA should not have had their time taken up by a potential investment manager's request. Mr. Mirisola indicated he contacted Mr. Emkin (with his concerns) who assured him he would not research the finalists and would strictly focus on the Board's process. He further indicated Mr. Silver then requested he and President Romero take a second look at the seven finalists, which he feels is out of the question. He added the Board should move forward with the process. Mr. Mirisola expressed, due to Merrill's request, LSV is being disqualified, putting Merrill back on the list. He added, according to Mr. Emkin, DWP as a public agency, has the responsibility to require the money managers to act professionally and complete the RFP accurately. He emphasized the managers should not be meddling with the Board's consultants, asking for second chances or trying to get other firms disqualified in order to come in the top seven, which in his opinion is enough to not even consider Merrill Lynch. He proposed, if LSV is disqualified, the Board should go by the same process and select the next firm on the list, which is MFS.

Mr. Wiggs indicated it made sense to ask questions when a firm, with \$4.5 billion in assets, does not qualify and a firm with \$900 million does. He added the Board's responsibility is to get the highest possible return and the interviewing process is not being compromised, since Merrill does meet all the minimum qualifications.

Commissioner Cho noted she had been absent from the last two Board meetings and it was difficult to get a sense of what has transpired, but her personal view is, since this is only the selection of candidates to interview, and not the decision to award the contract, it would be best to error on the side of including firms who the Board may have otherwise left out. She added it was better to have a bigger pool of firms since the ultimate objective is to get the best return on the investment. Commissioner Cho agreed the applicant should be in the business of interpreting RFPs in the way these are written, but people are human and can misinterpret. She stated she does not feel the Board is jeopardizing anything, the process is what is most important, and the Board should take the extra step to make sure all the misunderstandings are cleared.

Ms. Calvache commented it was decided by the Board members, at the last meeting, the interviews be conducted in one day (interviewing seven managers), because the last interviews which included 10 finalists (completed in two days) was too overwhelming.

President Romero suggested, in order to move forward, the Board needed to make a decision on whether or not to remove LSV from the list, due to the firm not meeting the insurance requirements. He stated it would be a waste of time on both the Board and LSV's part to interview them. President Romero indicated, after listening to the other Board members' concerns, he would suggest interviewing the six finalists and if they were not comfortable with them, interviewing two more; or, the Board could add MFS, as next in line, and include Merrill Lynch.

Mr. Emkin urged the Board, if they allow Merrill Lynch a second chance in amending their RFP, this same opportunity should be offered to everyone else, so that DWP's process cannot be questioned. Mr. Mirisola commented this would lead to another Board meeting in June and the Board would not be moving forward with the interviews scheduled, because issues may arise forcing the Board to eliminate firms.

Ms. Calvache inquired if all 25 firms should be afforded the opportunity to amend their previous RFP. Mr. Emkin responded in the affirmative, indicating it would just take a couple of days for his staff to do this.

Attorney Weisz Jones indicated this was a reasonable thing to do to protect the process. Mr. Mirisola commented if any of the firms have issues, the Board would have to meet to discuss and decide whether or not to add them as finalist, and this would mean the interviews could not be held June 11. He added delaying the process may cost the Plan millions of dollars.

President Romero expressed a concern new information rankings, and, the seven finalists have already been notified. Mr. Emkin responded President Romero's analysis was accurate, but he would be shocked if anything changed, because most of the failures to meet the minimum qualifications were regarding insurance requirements.

Ms. Bertrand stated she had no problem with PCA inquiring if any of the 25 firms had changes to their RFP, in order to protect the Board, if this could be done quickly and the June 11th interview date can be maintained.

President Romero suggested the Board not eliminate any of the finalists, but instead add on another interview day. He recommended submitting the paperwork, and if any of the firms change their insurance requirements, they could be included in the process on an extra day of interviews.

Mr. Vazquez moved LSV be removed from the interview list. Seconded by Ms. Calvache and carried by majority after the following vote:

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

Mr. Mirisola stated, if the Board were to add Merrill Lynch as a finalist, he had a list of questions he would like addressed, regarding relationships with specific entities and people. President Romero recommended Mr. Mirisola submit his questions to them and when Merrill interviews, they can have a written responses already prepared.

Mr. Emkin stated what Mr. Mirisola was pointing out is there may be potential conflicts of interest or violations of political practices and it would be better to remind all the candidates they have to comply with all of those things, as opposed to one manager getting questions from a specific Board member. He then informed the Board his staff will be “phone surveying” the 17 remaining managers, asking them if they responded to the RFP incorrectly and PCA will keep a file of the responses and inform the Board of the results of this survey. Mr. Emkin stated anyone who answers yes, PCA will analyze whether or not this would have qualified them to be a candidate and where they would have ranked, and inform the Board of this also. He reiterated he would inform the managers they should be familiar with California and Los Angeles Fair Political Practices Law and there may be questions relative to those issues in the interview.

Mr. Wiggs moved the two firms, Merrill Lynch and MFS, be added to the interview process, along with any firm out of the 25 who amend their RFP and meet the minimum qualifications. Seconded by Ms. Bertrand and carried unanimously after the following vote:

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

Mr. Wiggs inquired, in going forward with the process, is there any easier way for the Board to do this. Mr. Emkin responded it would be best to have the managers certify their response to the RFP. He added the Board should not ask staff, or anyone else, to go through tons of documents to see if the firms comply with the Board’s requirements, when the firms themselves should know. Mr. Vellon clarified the Board could ask PCA, as a consultant, to certify the information. Mr. Emkin responded he and Mr. Vellon could discuss that separately.

Mr. Emkin left the meeting.

President Romero called for a recess at 11:02

The meeting reconvened at 11:05.

17. Consideration of Retirement Plan amendment to provide for charging the Plan expenses against the Trust (for payment of investment management fees due and payable under the newly adopted asset allocation structure).

Mr. Vellon presented Item 17 as a resolution to charge against the Plan the investments management fees. He reported, at the last meeting, there was discussion regarding this item, wherein Mr. Mirisola expressed concerns and he was requested to put these in writing. Mr. Vellon indicated the amendment to the proposed Plan language, drafted by the City Attorney, was included in the Board packet and reflects Mr. Mirisola’s suggested language.

Mr. Mirisola stated he felt this was a big change in the Plan practices and it was unclear as to where the moneys would come from. He added, investment income is supposed to be the income from the investments that should pay the fees, rather than coming from the Trust fund itself. Mr. Mirisola stated if there was a situation of a year wherein the investment income was "0", the fees would not come from the fund, but from the Department. Mr. Vazquez stated he was comfortable with the change if it was legal. Attorney Weisz Jones indicated the City Attorney's Office reviewed it the language for the first time on Monday, and indicated the language was legal.

Mr. Vazquez moved adoption of Resolution 03-86. Seconded by Mr. Wiggs and carried by majority vote as follows:

Ayes: Wiggs, Cho, Vazquez and Bertrand

Nays: Romero, Mirisola and Calvache

18. Review of the Disability Fund as of June 30, 2002 by Segal Company (Presentation by Mr. Paul Angelo, Actuary).

Mr. Angelo approached the table.

President Romero recognized Mr. Angelo.

Mr. Angelo summarized the temporary, extended temporary and permanent total disability benefits. He stated, in terms of the funding, the temporary and extended temporary are lumped together and the permanent disability is funded under a separate action. Mr. Angelo then reviewed the recommended Department contribution rate for the Temporary Disability Benefit fund, stating it was currently \$0.68 per \$100 of compensation and, if no changes are made, this would drop to \$0.64 per \$100. He stated, for the permanent disability fund, the current contribution was \$0 and if no changes are made it would remain \$0. He indicated Segal's recommendation was to lower the Department's temporary disability benefit fund contribution.

Mr. Angelo explained the general approach is to develop a type of reserve, which is a measure of the value of claims expected to incur each year (currently \$3.5 million). He stated the object is to come up with a Department contribution rate that will produce the value of claims to be incurred that year. Mr. Angelo reported this Department cost, more or less, is \$1.15 per \$100 of compensation, but there is currently \$10 million sitting in the fund. He stated the general policy is to maintain assets equal to 20% of the reserve, which totals \$153,000, since there is a substantial amount in the fund, over and above what the policy requires. Mr. Angelo suggested the Department use up some of the surplus and explained how this could be done.

Mr. Angelo emphasized there is a very clear distinction between the disability fund and the retirement fund. He explained the retirement fund is invested in a mixed portfolio, wherein an 8% interest assumption is used, whereas the disability fund is invested 100% in fixed income, and an 8% interest assumption for these investments is not attainable. Mr. Angelo then recommended one of two alternatives: 1) let all the assumptions ride two more years, resulting in a lower Department contribution rate (from \$0.68 per \$100 to \$0.64 per \$100, or 2) adopt a 5%

interest assumption, recognizing the fixed income character of the investments, resulting in a Department contribution rate at \$0.68, the same rate currently in effect.

President Romero inquired if the Board needed to take action on Item 18. Mr. Vellon responded the action needed was just to accept the report, but if the Board was going to change the assumptions, a resolution was necessary.

Mr. Mirisola inquired if Segal's suggestion was for the Board to either lower the interest rate assumption or decrease the Department contribution. Mr. Angelo responded in the affirmative. Mr. Vazquez expressed he was comfortable with leaving the Department contribution the same and lowering the assumed interest rate.

Mr. Angelo then reviewed the permanent disability fund, stating it was a similar structure, but the claims had a much longer duration. He reported, as of June 30, 2002, the reserve totaled \$23.5 million, and the reserve goal is \$2 million.

Mr. Mirisola inquired, since there has been discussion of a surplus of money in this account, was there a barrier from transferring the huge surplus to the other fund in order to lower the contribution. Attorney Weisz Jones responded, the way the Plan Department is currently written, the money cannot be transferred from one fund to be to the other. Mr. Mirisola then inquired how much could be taken out and the funding to be kept at \$0. Mr. Angelo suggested, before the Board considers this, he wanted the opportunity to come up with a new recommended funding policy. Mr. Mirisola stated the Board would have to take into account a more practical rate of return to be used for the assumption.

President Romero commented the current assumptions were based on a 30-year-old formula, and in those times there was no threat of disasters, terrorism, etc. He then inquired if those things contribute to the assumption rate. Mr. Angelo responded the 20% is how much of a swing that is expected from year to year. He stated the terrorism events are still so narrowly defined and so infrequent, they are not making their way into the data. Mr. Angelo suggested if it is found a reasonable range is 25% to 33%, because DWP is a public utility (which makes DWP a potential terrorism target), then perhaps the Board should opt for the higher range of the swing.

Mr. Vazquez noted, at some point in the past, the Board discussed the potential for combining the Retirement Death and Disability Plans into one, but he did not recall what the obstacles or the benefits were. He then requested staff or the City Attorney's Office lay out the steps needed to combine the Plans. Mr. Vazquez then asked Mr. Vellon what he thinks the pros and cons would be, in terms of the management of the funds and the impact on the employees. Mr. Vellon responded this would mostly involve legal analysis, because the design of the Plans was already in place and it mandates the three funds be kept separate. He added, in terms of practicality, everything is possible as long as Plan amendments, if applicable, are made.

Mr. Vazquez commented, in conjunction with the Department's year-end audit, the Board needs assistance with some actuarial services. He indicated, in the past this was something Pricewaterhouse Coopers had performed, but will no longer. Mr. Vazquez then requested, on behalf of the Department, the Board allow a contract with Segal to do this work, stating he would submit this in writing to President Romero as to exactly what DWP will be requesting of Segal. President Romero responded he had no problem with this request. Mr. Angelo commented,

when Segal was performing the negotiation and DROP studies, they requested permission from the Board to do separate work, which is still ongoing and indicated the firm already has a client number set up. Mr. Vazquez commented one of the reasons he is requesting to use Segal is so the Department does not have to do an RFP and come up with a whole new actuary.

President Romero inquired, with respect to Mr. Angelo's disability study, was an agenda item needed for the next meeting in order to authorize the changes. Mr. Vellon commented the legal ramifications needed to be looked into first. Attorney Weisz Jones clarified it could be placed as an agenda item, because it is already known the Plan will need to be amended and probably meet and confer is going to be involved, but there is no legal roadblock preventing the Board from doing it. Mr. Vellon informed the Board, staff would have everything prepared for the next meeting.

Mr. Angelo returned to the audience.

19. Consideration of draft contract for fiduciary counsel services between the Board and Robert D. Klausner, P.A. and Bernstein Litowitz Berger & Grossmann, LLP.

Mr. Vellon explained Item 19 represented the draft contract with the fiduciary counsel, prepared by Attorney Weisz Jones

President Romero noted page 19.8, section three of the Board packet, it states, "it may also be terminated by the Board after consultation with City Attorney . . . ". He inquired why the Board needed to consult the City Attorney's Office to terminate an attorney. Attorney Donna Weisz Jones responded, before the Board can take an action to terminate a contract, it is a good idea to get legal advice to make sure there is good legal standing to do so. President Romero expressed his only concern is when the Retirement Board takes any action, the City Attorney's office has an opportunity to interject and say "this needs to go to closed meeting" or "I object because of this reason", adding he was not comfortable with this. Attorney Weisz Jones responded this was a standard provision by the City Attorney's Office and every contract for outside counsel, print shop, etc. has this included. President Romero indicated this language was not included in the contract for money managers. Attorney Weisz Jones responded it should be in that contract also, and some changes were going to be made. President Romero inquired if the Retirement Board was bound by Charter or city rules other than attorney advice. Attorney Weisz Jones responded, under the Charter, the Board can write a contract, but it's form has to be approved and in some cases the City Attorney has to give his consent. She clarified the proposed language reads, "consultation with the City Attorney", and does not say the City Attorney can tell the Board "no".

President Romero reiterated he was not comfortable with this language. Attorney Weisz Jones responded, if President Romero did not like the term "after consultation with the City Attorney's Office", she would talk to City Attorney Delgadillo to see if it can be omitted. She added this was standard language in City contracts and most Boards do not want to take action without consulting with their lawyer on whether or not they have liability. President Romero stated the Board would go forward in approving the item, but he would like in writing, by the City Attorney's office, the current language has to be included in the contract. Attorney Weisz Jones stated she would submit this to the Board.

Mr. Mirisola noted page 19.7, second paragraph of the Board packet, it states, "Outside Counsel and the Water and Power WPERP recognized that attorney services under this contract are being paid for with tax dollars". He clarified it should state, "assets from the City of Los Angeles", because DWP is not operating under tax dollars. Attorney Weisz Jones responded it is operating under tax laws because it is taken out of the DWP fund. Mr. Mirisola clarified the attorneys are not being paid by tax funds. Attorney Weisz Jones indicated this would be changed to "rate payers".

Mr. Vazquez moved approval of Resolution 03-73 with the noted corrections. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Calvache, Wiggs, Cho and Bertrand

Nays: None

20. Consideration of Pre-Tax Program for Service Credit Purchases under the DWP Plan. (Attorney Terry Rosales and Mr. Peter Lakatos will be in attendance to answer questions).

Mr. Vellon explained the Board had requested Attorney Rosales and Mr. Lakatos be present on an ongoing basis, until this issue is resolved. He noted Attorney Rosales was present today. Attorney Weisz Jones indicated Attorney Rosales was working on a draft Memorandum of Understanding (MOU) and it was given to Ms. Tesseneer at the beginning of the meeting, but had not been seen by Mr. Vellon yet. She stated Attorney Curwen had written up some draft language that will need input from staff and will then need to be modified because it is now an MOU issue. Attorney Weisz Jones indicated the City Attorney's Office would have everything completed by the next meeting.

21. Consideration of request for attendance: National Association of Public Pension Attorneys 2003 Legal Education (San Francisco, June 25-27, 2003) for Michael R. Wilkinson, Deputy City Attorney (Estimated cost \$1,925.00).

Mr. Vellon presented Item 21 as a routine request for attendance to the National Association of Public Pension Attorneys, by Attorney Wilkinson (totaling \$1,925) to be covered by Retirement's budget.

Mr. Wiggs moved approval of Resolution 03-98. Seconded by Ms. Bertrand and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Calvache, Wiggs, Cho and Bertrand

Nays: None

22. Consideration of Securities lending program within the Plan's Commingled Fund Allocations to Passive (Russell 1000) Index accounts (Northern & Merrill Lynch).

Mr. Vellon introduced Item 22, stating, when the Board adopted the contract with both Northern Trust and Merrill Lynch, the capability of utilizing their securities lending program was not addressed. He reported both firms have a lending program within their commingled funds. He noted Merrill Lynch offers lending as an option for the Board to participate, and in Northern's

case, participation is required. Mr. Vellon stated the lending income split (Plan/Manager) offered by Northern was 60/40 and 70/30 for Merrill Lynch. He stated PCA recommended the Board participate in the Securities lending programs, as provided. Mr. Vellon informed the Board PCA had reviewed the risk characteristics of the lending programs finding these acceptable and adoption of Resolution 03-99 would authorize participation and contract negotiations would continue with both firms.

Ms. Calvache moved approval of Resolution 03-99. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

23. Consideration of draft contracts for the Russell 1000 Index allocations:

- a) Northern Trust Investments, Inc.**
- b) Merrill Lynch Asset Management**

Ms. Bhatia requested Item 23 be tabled, since staff expected to have the contracts finalized for approval after receiving feedback from Northern and Merrill and some issues remain (regarding both managers) which are being resolved.

Mr. Mirisola inquired how far away was the completion of contracts for Northern Trust. Ms. Bhatia responded contracts were very close to being finished with Northern. Mr. Mirisola inquired if it was something that could be approved today in order to move forward. Ms. Bhatia responded in the negative, stating some language has not been incorporated and needed to be reviewed by the risk managers and the City Attorney's Office. Mr. Mirisola requested the item be placed on the June 11th meeting to be approved by the Board. Ms. Bhatia stated the contracts should be ready by the June 11th meeting.

Mr. Vellon commented, in terms of the fee, staff had been able to get together with both firms and they are really close on the fee. He indicated the difference is small and Merrill Lynch is just a little higher by about \$10,500 per year. He added this difference is immaterial when one considers the allocation of \$700 million. Mr. Mirisola stated, since the passive fund allocation was split in half, it needed to be \$0, so Merrill Lynch needed to come down.

Mr. Vellon inquired of Mr. Silver if this was a possibility. Mr. Silver indicated in the long run Merrill Lynch fee would be more favorable due to the anticipated securities lending program income. Mr. Vellon indicated he would get back to the Board on the subject of fees.

24. Consideration of Retirement Plan Amendment to Conform the Annual Cost of Living Adjustments (COLA) to the current index used by the Bureau of Labor Statistics (BLS). [Plan Sections IV (D)(16)(b) and IV (E)(10) (c)]

Mr. Vellon explained, at the last meeting the board decided to pursue a Plan amendment to conform the language of the COLA to the actual index that the Bureau of Labor Statistics produces. He stated Resolution 03-100, drafted by the City Attorney, would accomplish this, and upon Board approval of this resolution, it would be submitted to the City Council for the normal amendment protocol.

Mr. Wiggs moved approval of Resolution 03-100. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

25. Retirement Plan Manager's comments

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

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

b) General Items.

Old Death Claims

Mr. Vellon referred to the old pending death benefit claims, adding one beneficiary was contacted yesterday, through an investigator Mr. Mirisola recommended. He reported the beneficiary came in and signed for a claim estimated at \$80,000. Mr. Vellon indicated other methods have been used by staff to reach these beneficiaries as a last effort before closing the claims.

Remodeling of Retirement Office

Mr. Vellon stated the Retirement Office was being remodeled to accommodate the new staff.

Special Board Meeting for May 29, 2003

Mr. Vellon indicated a Special Board meeting was scheduled for May 29, 2003 in case there are items for discussion.

COLA Inquiries Regarding Negative Inflation

Mr. Vellon reported the Retirement Office has been contacted by the retirees inquiring about the application of Cost of Living Adjustments (COLA) when inflation is negative. Attorney Weisz Jones clarified the City Attorney's Office received a letter the past Thursday, and Mr. Wilkinson would be taking care of it the following week.

Ms. Bertrand referred to page 25a1 of the Board packet, regarding the notice to eligible monthly allowances effective July 1, 2003, and inquired what exactly was meant by "pro-rata adjustment" in tier 2. Attorney Weisz Jones responded, it means if one retires ten months ago, they would get more than the person who retired only six months ago. Mr. Foley commented, from the audience, that was incorrect, clarifying this would be prospective for next year retirees. He stated everyone who retired from July 1, 2002 through today, will get a full 2.8%, and those retiring after August 1, 2003 get a proration. Ms. Bhatia clarified it should state effective July 1, 2003.

Commission Cho indicated the Board values everyone's input, but when members of the audience are interested in speaking, they should approach the podium and identify themselves in order to be identifiable when transcribing tape.

Retirement Plan New Staffing

Mr. Wiggs acknowledged Mr. Vazquez for his support of the Retirement office receiving 11 new staff members. The Board expressed their appreciation to Mr. Vazquez.

Retirement Plan Fully Funded

Mr. Mirisola indicated he became aware of a meeting put on by upper management, wherein it was stated part of the reason the Department is so short of money (and why overtime needed to be cut) was due to Plan being underfunded. He stated this was inaccurate and what was meant is the Department is contributing into the Plan again, after being on the "payment holiday", and this is why there is less money available. Mr. Mirisola clarified the Plan is fully funded. Mr. Vellon commented the Plan was actually overfunded by 1% as of June 30, 2002.

The Board meeting was adjourned at 11:55 a.m.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary