

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

**MEETING – August 20, 2003**

**Present:**

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

**Absent:**

Annie E. Cho	Commissioner
David H. Wiggs	General Manager

**Others Present:**

Duamel Vellon	Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Ellen Shimamoto	Assistant Retirement Plan Manager
Lou Mastros	Bank of New York (BONY)
Mike Wilkinson	Deputy City Attorney

The meeting was called to order at 10:06 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board.

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

- 1. Approval of Minutes for the July 29, 2003 Special Board Meeting.**
- 2. Termination from Monthly Rolls as of August 2003:  
Retirement Resolution for August 2003.  
Termination from the August 2003 Survivorship Roll: Jenny M. Larrison – death.  
Termination from the July 2003 Family Death Benefit Roll: Marsha Carter – Death.  
Termination from the August 2003 Family Death Benefit roll: Elizabeth M. Turrietta – attained 18 years of age.**

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

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

President Romero inquired if there were any public comments.

Mr. Vellon indicated there was one request for public comments.

### **PUBLIC COMMENTS**

Board President Romero recognized Mr. Don McPoland (Vice President of the Retired Employees' Association).

Mr. McPoland approached the podium, stating he wanted to discuss the monthly retiree newsletter. He stated many of the retirees did not receive the last newsletter, until Saturday August 9th, but the retiree meeting was scheduled for that same Saturday. He added, as a result, the retirees were not given sufficient time to attend the meeting. Mr. McPoland stated the most important information in the monthly newsletters is the retiree meetings and even though the previous newsletters (June 1 and July 1) included the notice of the August 9 meeting, the retirees may not make a note of this, so it is important the retirees receive this information just prior to the meeting, as a reminder. He suggested the newsletter be mailed out the same time the retiree checks are mailed, adding there was no excuse for it being mailed so late every month.

- 3. Report of Payment Authorizations as of July 2003.**
- 4. Short Term Investments as of July 31, 2003.**
- 5. Stock Portfolio Listing as of June 30, 2003.**
- 6. Report on Long Term Investment as of June 30, 2003.**
- 7. Security Transactions for the month of July 2003.**
- 8. Distribution of Securities by Type and Class as of June 30, 2003.**
- 9. Statement of Investments owned as of June 30, 2003.**
- 10. Equity Investments as of June 30, 2003.**
- 11. Notice of Deaths as of July 2003.**
- 12. Compilation of Retirement Board Policies – Retirement.**
- 13. Update on the Board's Interview of Finalists for the International Investment Managers Segment of the Plan's Portfolio (Consultant recommends inclusion of Baillie Gifford).**

Mr. Vellon noted item 13 includes a reference to PCA's recommendation to include Baillie Gifford in the Board's selection process (International Managers) and Baillie Gifford confirmed they would meet the Board's requirements. He indicated staff was in the process of coordinating the presentation for the International search. Mr. Vellon then proposed items 3 through 13 be received and filed.

Mr. Moore inquired if the Board had received the performance review from PCA for the most recent quarter and year. He noted, when looking at the quarterly review of the Retirement portfolio, it showed both the bond and mortgage portfolio down, which he stated surprised him. He indicated he would have thought it would be up, due to the decrease in the interest rates. He then requested an explanation of this and inquired if PCA's evaluation was available. Mr. Vellon responded staff was attempting to combine the quarterly presentation with the PCA evaluation. He added usually PCA representatives submit a performance report, which is distributed ahead of time to the Board members.

Mr. Vazquez inquired about a payment to Moore North America on page 3.69 of the agenda packet. Ms. Shimamoto responded this payment was for data-mailers in connection with pension payments through direct deposit.

Mr. Vazquez also inquired about the security transaction for July 2003 on pages 7.2 thru 7.5 of the agenda packet. He suggested listing yields to maturity for the securities the Department is buying, because there are stated interest rates but they are purchased at a premium or discount and he would like to see what the yield and maturity is.

Mr. Vazquez commented a lot of bonds were being purchased that are not going to meet the overall Plan yields. He then inquired who was making the security transactions indicated on page 7.3 of the agenda packet. Mr. Vellon responded Standish Mellon was making the transactions. Mr. Vazquez inquired why they were making purchases of U.S. Treasury notes/debentures at 2.65%, and at the same time selling these same securities. Mr. Vellon responded the consultant would address this inquiry at the next meeting.

Ms. Calvache moved the above Items 3 through 13 be received and filed. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Moore, and Calvache

Nays: None

**14. Consideration of BNY Brokerage Equity Portfolio Transition Report (Passive Russell 1000 Index Funding).**

Mr. Vellon indicated item 14 was to be presented by PCA, who was supposed to be in attendance. He explained the report arrived just the day before the meeting due to problems with the energy crisis in New York (no overnight delivery available).

Mr. Vellon stated PCA indicated they received their report from BNY (Bank of New York) yesterday. He added he was under the impression BNY representatives would be present today. President Romero suggested PCA and BNY be present at the September 3<sup>rd</sup> meeting to present their report.

Item 14 was tabled to be rescheduled for the September 3 Special Board meeting.

[A representative from BNY Western Trust arrived later in the meeting and provided some commentary on this item (see page 8)].

**15. Consideration of Plan portfolio transition programs after full funding of the Plan's passive Russell 100 allocation as recommended by the Plan's consultant Pension Consulting Alliance (PCA).**

Mr. Vellon explained item 15 was also an agenda item PCA was to report on, but they are not present and he had not heard from them. Mr. Vazquez inquired if PCA had notified anyone on staff. Mr. Vellon responded in the negative.

Mr. Mirisola commented, after reviewing some of the documents, it looked as if most of the portfolio was basically S & P 500, therefore, BNY should be a little more aggressive on their \$0.01 per share price, (quoted for the Plan's Russell 1000 transition) if they were to be awarded the transition of other segments of the Plan's portfolio. Mr. Vellon responded Mr. Mirisola made a very good point. He explained when the Russell 1000 transition program was implemented, \$1.6 billion was carved out of the Plan's total portfolio and some of the securities were identified as In-kind transfers (which were to be folded from the Plan's portfolio into the index) so the managers would not have to go sell these, then go out and purchase the same securities in the open market.

Mr. Vellon further explained there were additional monies needed for the completion of the \$1.6 billion funding. He added this turned out to be \$728 million. He indicated \$728 million worth of securities were transitioned by BNY/GTM in the open market, at the lowest possible market impact. Mr. Vellon then addressed Mr. Mirisola's comment on BNY charge of \$0.01 per share. He explained those trades turned out to involve the more illiquid securities within the Plan's portfolio. He noted, when the fund carved \$728 million out of the portfolio (pursuant to the recommendation of The Boston Company and TCW) both managers ran their own portfolio diagnostics, looking for ways of leaving a high quality "remnant" portfolio. Mr. Vellon reported the fund ended up with an S & P, high quality portfolio, meaning the \$728 million worth of securities liquidated turned out to be the less liquid out of the Russell 1000 type of securities within the Plan. He stated Mr. Mirisola's point was well taken and if BNY charged a penny a share for these (and if the Plan were to do the additional transitions with them) it should be expected future transition charges be less than a penny a share.

This Item was tabled due to PCA's absence.

**16. 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 indicated Attorney Rosales was present to discuss this item.

Attorney Rosales approached the podium and was recognized by President Romero.

Attorney Rosales indicated he did not have a progress report to present to the Board at this stage and, to his understanding, there are still ongoing talks with the union. He stated he anticipates, when that process sets off, they will then come before the Board and get the Resolution, but he could not put a timetable on it.

President Romero thanked Attorney Rosales for his participation and updates, because there are a lot of active members inquiring about this matter.

Mr. Moore inquired if the City Attorney's office has looked at the IRS issues, in terms of any liabilities the Department may assume in the process of "picking-up" contributions. Attorney Rosales responded there was no specific contact with respect to this, but Attorney Mary Jo Curwen had been in contact with tax attorneys under contract. Attorney Wilkinson clarified for the Board, the draft language currently in the packet had been run by a tax consultant and there should be no problems with it.

Ms. Calvache inquired if the City Attorney's office is considering members already paying into the program. Attorney Rosales responded in the affirmative and indicated there was a provision to allow those under existing payment plans to be reconstituted.

**17. Board's Existing Contracts Coming Due Within the Next 6 Months:**

- a) **Standish Mellon Asset Management (Fixed Income) expires 12/30/2003.**
- b) **The Boston Company Asset Management (Equity) expires 12/30/2003.**
- c) **TCW (Domestic Fixed Income) expires 12/30/2003.**
- d) **TCW (Domestic Equity) expires 12/30/2003.**

Mr. Vellon explained item 18 was just to bring to the Board's attention the contracts about to expire in six to seven months, in case the Board wants to pursue RFPs. He stated, in this particular case, all of the contracts involved the investment managers the Plan currently has, which were all extended until December 2003, to give the Board an opportunity to implement the asset allocations program. He added no action was needed at this time, as new contracts should be in place by December 31, 2003 after the Board's completion of its new asset allocation structure.

**18. Consideration of Staff and City Attorney recommendation on Other Departmental Service Purchase Contract Error in Ms. Judy Mould's Case.**

Mr. Vellon introduced Item 18 as Ms. Judy Mould's case and inquired if she was present at the meeting (Ms. Mould was not present). Ms. Tesseneer indicated she e-mailed Ms. Mould and also sent her the agenda item via U.S. mail. Mr. Vellon explained Ms. Mould appeared before the Board the previous month and he proceeded to summarize her case. He stated the Retirement Board requested both the City Attorney's office and staff look into possibilities and make recommendations. Mr. Vellon indicated the staff recommendation was in the Board packet and this is, unfortunately, one of those errors where nothing can be done. He stated staff and the Board apologized profusely to Ms. Mould at the last Board meeting. Mr. Vellon informed the

Board Mr. Wilkinson advised, in his legal opinion, the fact there was a mistake in the document would not give her the right to purchase this service and, on this basis it is recommended the matter be tabled with no further action.

Attorney Wilkinson inquired if staff will be instructed to let Ms. Mould know her request has been denied. He advised "tabled" sounds as if the issue is being put off. Mr. Mirisola moved Ms. Mould's request be denied consistent with staff's recommendation. Ms. Calvache inquired if Ms. Mold was even eligible for the time she was requesting. Mr. Vellon responded Ms. Mould was not eligible.

Mr. Mirisola again moved item 18 be denied. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Moore, and Calvache

Nays: None

**Closed Session under Government Code Section 54956.9. Conference with the City Attorney regarding anticipated litigation on a matter involving member Donald E. Benton regarding his request for voluntary payment of a portion of his monthly pension to his wife.**

**19. Consideration of request by retiree Donald E. Benton, relative to possible DWP Plan payments of a portion of his pension to his wife (currently separated) under a court order he provided (Clark County, Nevada, Case No. D299149).**

Mr. Vellon indicated Mr. Benton sent an e-mail, yesterday, requesting the matter be tabled. He stated Attorney Wilkinson recommended the item and the closed session be tabled as requested by Mr. Benton. It was the consensus to so proceed.

**20. Consideration of draft contract agreements for "search" services agencies in connection with the Plan's old pending death benefit claims:**

- a) International Claims Specialists.**
- b) Docu-Search.**

Mr. Vellon reported staff met with Attorney Wilkinson, yesterday, regarding item 20. He added there are items the City Attorney's office request be added to the proposed resolution. He then recommended the item be tabled, adding the resolution, with the proper recommendations the City Attorney made, will be presented at the next Board meeting.

Mr. Moore noted the proposed agreement would compensate the firms for "no matches". He suggested the Manager explore an arrangement wherein the Plan would only pay for the "matches" even if this represents paying them more than the proposal suggests. Mr. Vellon reported this had been discussed, but both firms indicated the search effort is the same whether or not they find the person being sought by the Board. He noted, however, he would again approach both firms to explore the possibilities and will report back to the Board.

**21. Consideration of use of Exchange Traded Funds (ETF's) to gain exposure to Small Cap Equity and International Equity (Developed and Emerging) segments.**

Mr. Vellon indicated item 21 was an issue the Board brought to the attention of the consultant, concerning the potential use of ETF's (Exchange Traded Funds) to possibly give the Board the exposure to the asset class selected, be it International Investments, Small Cap, etc., versus having cash (which is generating a little over 1%). He stated PCA submitted a report recommending the transition manager be allowed to explore the possibility of using ETF's, if they find it economically advantageous to the Plan.

Mr. Vellon noted PCA was supposed to be in attendance to present this report to the Board. President Romero suggested PCA address this item briefly at the September 3<sup>rd</sup> meeting.

Mr. Vazquez inquired how many firms were being interviewed at the September 3<sup>rd</sup> meeting. Ms. Tesseneer responded 13 firms. Mr. Vazquez expressed he would prefer the additional agenda items be combined with the quarterly report review meeting, as these may take away time from the interview process. President Romero stated he agreed with Mr. Vazquez with regards to the ETF's, but the transition needed to be addressed, because the new money managers hired by the Board were waiting for the funding of their allocations, and the Board should not sit on it.

Mr. Vazquez commented, regarding the transition, the Board engaged Bank of New York (BONY) to do the Passive (transition). He then inquired if this was an open contract for them go forward with the other transitions as well. President Romero responded it would be based on the performance of BNY on the Passive transition. He stated BONY submitted a report, but due to the power outage, back east, it was not received until the day before, and PCA needed more time to review it.

Mr. Vellon acknowledged item 21 would be moved to the quarterly meeting and the transition would be part of the September 3<sup>rd</sup> Board meeting.

Mr. Moore expressed PCA did a good job of analyzing ETF's in terms of liquidity, volume, etc., but he was troubled in the way the Board is closing it out. He stated, in the end of PCA's report, it states "delegating exposure assignment to your transition manager as your fiduciary would be the most appropriate strategy" but in the actual resolution it states "the Retirement staff be and hereby is directed to coordinate with the consultants the Plan's use of ETF's, if possible, through the Plan's newly hired investment managers." Mr. Vellon clarified this was a typo and the draft resolution should read, "Transition managers" instead of "Investment managers".

Mr. Moore expressed the Board was putting the transition manager in a very difficult situation by expecting them to provide some sort of reflection of the market during the period of transition, to the extent of saying they have the fiduciary freedom to do so. He added the Board really hired them to only go through the transition, which is how their compensation is structured, and the Board need to be really clear with the transition managers in terms of what is actually expected of them. President Romero agreed

Mr. Moore made a very good point and it would be best addressed by Mr. Emkin (PCA) at the next meeting.

President Romero noted a representative from BNY had just arrived at the meeting.

Mr. Lou Mastros (BONY) approached the podium and President Romero recognized him.

Mr. Lou Mastros informed the Board he would not be giving a report on the transition itself, but he did report he had some conversations with the transition group and found out there were some delays with the power outage, as far as getting the report out. He stated, from BONY's perspective, the transition went very well and was done in one day with great cohesion between the custody bank and the transition group. He indicated BNY/GTM beat the benchmarks and the performance versus the Russell 1000. President Romero stated he appreciated Mr. Mastros' input, but the Board would need to wait until they could meet with Mr. Emkin, to make sure everyone is on the same page. He then suggested BONY read the comments from PCA, with respect to the ETF's, and be prepared to address any questions the Board members may have. Mr. Mastros inquired if the Board would like to have a representative of the transition group at the next Board meeting, to present the results, in addition to PCA. President Romero responded he was not sure there would be enough time for this on September 3<sup>rd</sup>, but perhaps at the next regular Board meeting, tentatively scheduled for the third Wednesday of September. President Romero thanked Mr. Mastros and he was excused.

## **22. Update on Board transition into a full discretion asset management structure.**

Mr. Vellon indicated item 22 represented an update on the Board's transition into a full discretion asset management structure, as requested by Mr. Vasquez. He stated it has been suggested the report be submitted to the Board of Commissioners, addressing inclusion issues in some detail. He added he would modify the report accordingly.

## **23. Retirement Plan Manager's comments**

### **a) Legal Opinions**

Mr. Vellon reported there was a legal opinion regarding Mr. Woodard's case, stating he could resign without consideration of his eligibility for a pension. He explained Mr. Woodard was currently on Worker's Compensation and not applying for retirement, but wanted to know if he could resign and apply for a refund. He added the issue is now resolved by the legal opinion and staff will be writing to him accordingly. Mr. Vellon stated the other issue was if Mr. Woodard does not resign and dies while on Workman's Compensation, would his family receive the 14 times salary and the legal opinion states that he would and this will also be reported to Mr. Woodard.

Mr. Vellon explained another legal opinion regarding a person who passed away as a retiree (Mr. McGlover) but who had been divorced after retiring and, upon his recent death, there was a lady who claimed she had been married to him. He reported the City

Attorney ruled the rightful beneficiaries are Mr. McGlover's designated beneficiaries (his two children). He stated the Retirement office is in the process of closing this case by paying the two children.

Mr. Vellon reported there was an update on an interpleader action filed on behalf of the Board and it was resolved in favor of one of the two parties in litigation.

Mr. Vellon noted the legal opinion regarding Ms. Mould had already been discussed.

Mr. Vellon stated the last legal opinion was very important, because the Board had suggested, at the request of the actuary, the attorneys explore the potential of combining the Disability fund and the Death fund into the Retirement fund. He indicated the City Attorney had researched this matter and concluded, on a legal basis, this could not be done without a Charter Change; therefore all Funds will remain separate.

**b) DWP Plan Newsletter for retirees (August 1, 2003 Edition).**

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

**c) Update on office remodeling.**

Mr. Vellon stated, at the last meeting, the Board members requested an update on the remodeling of the Retirement office. He explained he still has not been able to get a response and was hoping Mr. Wiggs could assist, because Mr. Salas has been extremely busy and the architect cannot start unless Mr. Salas gives him the okay. He stated he had met with Mr. Hokinson to see if there could be preliminary authorization to at least start working on one cubicle at a time, but he has not been able to get any feedback on this.

**d) General Items.**

Retiree Concern About Pension Reductions in the Event of Negative Inflation as Measured by the Consumer Price Index (CPI)

Mr. Vellon stated the last retiree newsletter included references to the fact that if inflation was negative, the Plan provides the retiree's pension would be reduced. He stated the Plan document indicates if inflation is positive, the Board can approve up to a 3% increase, but, if inflation is negative, the pension's can be decreased up to 3%. Mr. Vellon noted this information was provided to the retirees, in conjunction with the new information regarding the recent legal opinion received (confirming if inflation is negative, and the retirees have a COLA bank, they can still receive an increase in their pension). He reported a retiree, who could not attend today's meeting, asked him to convey to the Board (especially to the Retiree Representative) it is not fair, if retirees are used to a certain pension, to reduce it at a later point, even if inflation turns negative. Mr. Vellon added the retiree felt someone should do something about it, regardless of the Plan language. Mr. Moore responded, as a Retiree Representative, he will be very mindful of this, but at the same time the Plan says what it says.

### Plan Equity Portfolio Transition

President Romero thanked Mr. Vellon and the Retirement staff for all the hard work they have done, especially regarding the Plan's recent equity portfolio transition.

Ms. Calvache noted the e-mail correspondence reflected very early morning times by staff and she appreciated the effort.

### Retirement Office Remodeling

Mr. Mirisola noted the minutes refer to a monthly Board update on the progress of the remodeling and suggested it be placed as an agenda item. He then inquired if the August 9 retiree meeting, as referred to under call to the public, was announced in the July newsletter. Mr. Vellon responded the announcement of the August 9 activities, to all retirees, was included in the June 1, July 1 and August 1 Retirees' Newsletter. He noted the August 1 newsletter was mailed on the 5<sup>th</sup> and 6<sup>th</sup>, but some retirees did not receive it before the 9<sup>th</sup>. He added, usually the mailing works fine, but staff will be working with the Post Office since these retirees who missed the announcement are probably not receiving the monthly newsletters at all. Mr. Moore commented he would be meeting with Mr. Vellon on Monday and this was one of the items he wanted to discuss, because there has been some frustration on the part of the retirees regarding this issue.

The Board meeting was adjourned at 10:43 a.m.

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JAVIER ROMERO  
President

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DUAMEL VELLON  
Secretary

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SILVIA TESSENEER  
Recording Secretary