

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

**MEETING – April 21, 2004**

**Present:**

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

**Absent:**

Frank Salas	Acting General Manager
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**Others Present:**

Adriana Rubalcava	Acting Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	PCA (Pension Consultant Alliance)
Lou Mastro	Bank of New York (BNY)
Mike Wilkinson	Deputy City Attorney

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

[Pledge of Allegiance]

Ms. Rubalcava indicated there was quorum of the Board.

President Romero recognized the Retirement staff on behalf of Professional Employee's Day for their hard work over the past year during very trying times.

- 1. Approval of Board Meeting Minutes: None.**
  
- 2. Termination from Monthly Rolls as of April 2004:  
Retirement Resolution for April 2004.  
Termination from the April 2004 Family Allowance Roll:  
Christina Jilek – Attained 18 years of age.  
Laura Jilek – Child attained 18 years of age.  
Termination from April 2004 Survivorship Roll:  
Scharlene A. Almond – death.  
Edith M. McKinney – death.  
Termination of Permanent Total Disability Roll:  
Douglas Kurimoto – no longer PTD.  
Termination of Permanent Total Disability Roll:**

- Clarence Rickerl – retired.**
- 3. Refund of excess retirement contributions and interest due to incorrect contribution rate – Larry Marquez (active).**

President Romero noted there were no Board meeting minutes to be approved.

Mr. Moore moved adoption of the above items 1 through 3 on consent. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

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

- 4. Report of Payment Authorizations as of March 2004.**
- 5. Distribution of Securities by Type and Class as of January 31, 2004.**
- 6. Equity Investments as of January 31, 2004.**
- 7. Report on Long Term Investments as of February 29, 2004.**
- 8. Security Transactions for the month March 31, 2004.**
- 9. Short Term Investments as of March 31, 2004.**
- 10. Statement of Investments Owned as of January 31, 2004.**
- 11. Notice of Deaths as of March 2004.**
- 12. Age discrepancy issue involving Mr. Dan Bitterman resulting in incorrect contributions deducted over the years from a Plan member.**

Mr. Moore moved the above Items 4 through 12 be received and filed. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

- 13. Report back to Board regarding current LADWP policy on confidentiality; discussion and possible action to request additional confidentiality forms for Retirement Office employees.**

President Romero introduced item 13 and inquired if the Retirement staff and PCA had been working on the policy on confidentiality. Ms. Rubalcava responded the City Attorney's office and staff had been working on the policy. She stated Ms. Calvache requested staff to investigate whether or not there were any existing LADWP forms regarding confidentiality. Ms. Rubalcava explained whenever a new employee enters LADWP they are requested to keep their work confidential. Therefore an existing policy is already in place. She then referred to examples of forms given to the employees in the Board agenda packet.

Ms. Rubalcava indicated the item was brought back before the Board in order to give them information on the existing policy and to inquire if the Board would like staff to pursue additional confidentiality forms. She stated if additional confidentiality forms

were warranted, this would be a new item and discussions would have to begin with the labor unions. Ms. Rubalcava also indicated she had a general staff meeting the prior week, wherein she reminded the Retirement Office staff of DWP's commitment to confidentiality.

Mr. Moore inquired if there was a proposed form at a prior Board meeting. Ms. Rubalcava responded in the affirmative. Mr. Moore then clarified the Board could not move forward on this without meet and confer, assuming the Board requests an additional confidentiality form. Ms. Rubalcava proposed staying with the existing policy and reiterated staff was reminded of their commitment to that policy. She expressed, in her short time as Acting Retirement Plan Manager, the Retirement staff has always displayed discretion and professionalism.

Ms. Calvache inquired if there was a form already in existence that employees are required to sign. Ms. Rubalcava responded there is a form consisting of the loyalty oath, the code of ethics and expected employee behavior, which is signed when one becomes a DWP employee. Ms. Calvache explained her reason for pushing for the confidentiality form is, just like in the Medical Service Office, the Retirement office employees have access to records pertaining to all of the employees and are required to sign an additional confidentiality form, which is kept in their file. Ms. Rubalcava stated if the Board introduced a motion requesting staff to follow this directive, they would be more than happy to do so. She then informed the Board staff would not be able to submit the form to the Board at the next Regular Board meeting because they would have to meet with the labor representatives to work out the details.

President Romero inquired, if the confidentiality form in Medical Services is already identical, had the meet and confer process already transpired. Ms. Rubalcava responded she would have to check with the labor unions because she could not speak for them. Ms. Calvache suggested using a copy of the form in Medical Services and modifying it for the Retirement Office's use.

Mr. Mirisola referred to the e-mail from Attorney Weisz Jones, on page 13.4 of the agenda packet, that was sent to Ms. Rubalcava and noted he recalled a confidentiality clause in the department's three-volume policy and procedures manual and the employees could just be reminded of this. He expressed his initial concern for this matter was a result of the transition issues. Ms. Calvache reiterated the form used in the Medical Services Office was sufficient.

Mr. Vazquez commented there was not a confidentiality form in place for the Paymaster's office either and he did not feel it should be an additional burden or requirement. President Romero explained the Board was just motioning to explore the idea.

Ms. Calvache moved that the request of an additional confidentiality form for the Retirement Office be explored. Seconded by Mr. Mirisola and carried unanimously after the following vote:

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

Nays: None

**14. Final adoption of Retirement Plan amendment to rescind eligibility for Department of Water and Power Employees Retirement Plan, Death, and Disability Benefits for daily rated employees represented by the Orange County Building Trades Council hired on or after April 16, 2003.**

President Romero introduced item 14 and inquired if any discussion was necessary.

Commissioner McCallum moved for approval of Resolution 04-108. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Nays: None

**15. Domestic Partnerships:**

**a. Adopt resolution establishing criteria for accepting date on Health Plan Office Affidavit of Domestic Partnership to meet Plan requirement to register Domestic Partner at least one year prior to retirement.**

**b. Discussion and possible adoption of new policies and procedures to better inform members about Plan provisions involving Domestic Partnerships**

President Romero introduced item 15a and 15b, expressing that unfortunately sometimes the experiences we have in Retirement requires the Board to adopt new plans and policies. He noted a couple of months ago it was brought to the Board's attention that retirees were under the impression if they went to the Health Plans office and took care of their paperwork they would automatically be covered for retirement; therefore he feels there is a lot of value in resolution 04-104.

President Romero then inquired, with regards to item 15b, did staff have any recommendations. Ms. Rubalcava indicated staff was having conversations with George Fogelson (Health Benefits) in terms of better communication between the Health Plans and the Retirement office. She stated Mr. Fogelson was committed to adding the additional line on their form reminding retiree's to go to the Retirement office to sign up their Domestic Partner and that Retirement's form will also have this additional line.

President Romero requested staff come back to the Board with what is finally agreed upon.

Mr. Mirisola commented he has found that other cities with domestic partnership policies have run into the problem of keeping track of who is actually a Domestic Partner. He stated there have been instances when illnesses arise in an employee's family and they claim that family member as a Domestic Partner in order to get them medical benefits. He then requested to see the policy for Domestic Partnership adopted

by the City or the Board of Water and Power Commission in order to find a way to prevent these kinds of abuses. Ms. Rubalcava responded the Plan defines what a domestic partner is, who is excluded from this title and the time limitations. Mr. Mirisola stated the Plan's definition may be inconsistent with the City's and the Department's idea of what a domestic partner is and suggested the language be reviewed to make sure it is consistent. Mr. Harrington commented the Plan language, with regards to domestic partners, was very consistent with the other pension plans in the City. Attorney Wilkinson concurred with Mr. Harrington that DWP's provisions regarding domestic partnerships were very consistent with the other pension plans in the City. Mr. Harrington commented the provisions in DWP's Plan were somewhat limited, and when the Board adopted the Plan amendment, they also adopted a set of rules defining the rules of what a domestic partner is in more detail. Mr. Mirisola requested staff provide those rules for his review.

Mr. Vazquez moved for approval of Resolution 04-104. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Ms. Rubalcava inquired if a motion was needed by the Board to carry out Mr. Mirisola's request of additional information. Mr. Mirisola expressed a motion was not necessary because he was just requesting more information. Ms. Rubalcava inquired if the item needed to come back before the Board. Mr. Mirisola responded the item did not need to come back before the Board. He stated he was just requesting staff to provide more information when the Board is presented with the new policies.

**16. Determination as to whether the adult child of a member is disabled and therefore eligible for a Family Death Benefit Allowance.**

Mr. Harrington explained the Plan provides benefits for minor children in the case an employee dies and there is also a provision stating the benefit can be paid to an adult child who is disabled. He added the Plan defines "disabled" as someone who is not capable of gainful employment. Mr. Harrington explained the case of Brian Frawley involves a very sheltered sort of employment. He stated Mr. Frawley has a sheltered job but is unable to read or count money, and the resolution before the Board makes a finding that he meets the criteria and is entitled to the benefits. Mr. Vazquez inquired what the dollar amount of such allowance would be in this case. Ms. Le responded \$416.00 a month. Commissioner McCallum commented, when these individuals are making these hourly wages, Medicare benefits and social security are deducted and the offset leaves them with very little money.

Ms. Calvache moved for approval of Resolution 04-105. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

## **17. Discussion and selection of Board members to form an Audit Committee.**

President Romero introduced item 17 and noted Mr. Moore had submitted paperwork as to the scope of work of an Audit Committee and what duties other Pension Plan Audit Committees perform. He stated this was something the Audit Committee could work out among themselves and come back to the Board as to what the scope will be. President Romero then appointed Commissioner McCallum (Chair), Mike Moore (Vice Chair) and Ms. Calvache to the Audit Committee.

Mr. Mirisola moved for approval of Resolution 04-106. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

Nays: None

## **18. Consideration and selection of Alternate Manager to replace INVESCO for the International Equity mandate.**

President Romero introduced item 18 and inquired if there were any public comments regarding the item.

Mr. Michael Keough (INVESCO) approached the podium.

President Romero recognized Mr. Keough.

Mr. Keough updated the Board on the status of their meeting with regards to DWP's insurance requirements. Mr. Keough indicated INVESCO has met all of the insurance requirements and they are awaiting the original copy of a document to be sent Fed Ex from London either today or tomorrow.

Ms. Rubalcava thanked INVESCO for all of their work and for moving so quickly on meeting the insurance requirements. Mr. Keough, in turn, thanked the Retirement staff and Mr. Avery Neaman (Risk Management) for investing so much time in this.

**19a. Resolution amending contract with Delaware to allow 90 days for contract compliance and to hold them responsible for transition costs incurred in the event of non-compliance to select an alternate Investment Manager.**

**19b. Resolution amending contract with Delaware to allow 3 weeks for contract compliance and to go ahead with the alternate manager selected by the Board.**

President Romero introduced item 19.

Mr. Vazquez noted there was a resolution for item 18 and inquired if it was not being adopted. President Romero responded in the affirmative. Mr. Mirisola clarified that Ms. Rubalcava stated resolution 04-109 would only be necessary if a problem with INVESCO meeting the insurance requirement arose. Mr. Vazquez inquired, assuming the insurance comes through, when will the contract be signed to fund the account. Ms.

Rubalcava informed the Board the contract had already been signed and it would be funded upon the receipt of the insurance requirements being met.

Mr. Wilkinson inquired, with regards to the revision of the resolution, was the new resolution the one being approved instead of the original resolution that was in the Board package. Ms. Rubalcava explained that the new information is a result of discussions with Delaware, wherein they were unable to commit to the 90 days for contract compliance and picking up the cost for the transition fees. She stated staff worked out a timetable with Delaware of three weeks to resolve their insurance issues and Delaware is aware the Retirement Board has chosen the Boston Company as an alternative.

Mr. Mirisola inquired about the wording in resolution 04-114 where it states, "Delaware has not yet signed the Retirement Plan's standard RFP contract", and inquired if there was language in the RFP stating "the RFP contract". He indicated there was just a standard contract that was not attached to the RFP. Ms. Bhatia clarified the insurance provisions are attached to the RFPs. Mr. Mirisola requested, for clarification, staff change the resolution to state "the insurance provisions as in the RFP".

Mr. Vazquez moved for approval of Resolution 04-114 with the amendment. Seconded by Mr. Moore and carried unanimously after the following vote:

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

**20. Resolution relative to the selection of Investment Management Firm to replace one of the Plan's Large Value Domestic Equity Portfolios – Merrill Lynch Investment Manager.**

President Romero introduced item 20. Ms. Bhatia explained this item was already approved by the Retirement Board at the April 7<sup>th</sup> Special Board meeting, wherein T. Rowe Price was selected as a replacement in one of the Plan's Large Value Domestic Equity portfolios and was being brought back before the Board for approval of the resolution.

Commissioner McCallum moved for approval of Resolution 04-111. Seconded by Mr. Mirisola and carried unanimously after the following vote:

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

**21. Resolution amending contract with Earnest Partners relative to insurance provisions for contract.**

President Romero introduced item 21. Ms. Rubalcava informed the Board item 21 had also been previously approved and staff was following up with the resolution based on the decision the Board made on April 21<sup>st</sup> to accept Earnest Partners with Option 3 from their letter. She stated staff had initial discussions with Earnest Partners and they will

be put in contact with Mr. Neaman in order to fulfill the insurance requirements so staff can move forward.

Mr. Vazquez moved for approval of Resolution 04-112. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

Nays: None

## **22. PCA's discussion on Soft Dollar.**

President Romero stated soft dollars was an issue Mr. Moore had concerns with. He then inquired if Sarah Bernstein (PCA) had anything she wanted to add. Ms. Bernstein stated she felt the summary report was clear on this issue. Mr. Moore commented there were clearly some things the Board may want to explore when all of the managers are on Board and have a little experience with the trading activity.

Item 22 was tabled.

## **23. Selection of finalists for High Yield Fixed Income Investment Manager.**

Sarah Bernstein (PCA) approached the Board table.

President Romero recognized Ms. Bernstein.

Mr. Vazquez inquired what amount would be funded for the High Yield mandate. Ms. Bernstein responded the high yield mandate is 10 percent of the fixed income and the Board is hiring two managers, so each manager would be approximately \$100 million each, depending on the total market value of the portfolio.

President Romero inquired if the Board was interviewing 6 managers. Ms. Bernstein responded PCA was recommending the Board interview between 4 and 6 out of the 10 managers ranked highest by PCA. She pointed out the Board was currently in a process with Fidelity, who just yesterday sent a letter stating they were able to meet all of the requirements; therefore the list would need to be amended so they could be included as well. Ms. Rubalcava indicated she met with Art Greenwald of Fidelity to accelerate the discussions regarding insurance, and their staff expressed they are committed to fulfilling DWP's insurance requirements and have begun initial discussions with Mr. Neaman (Risk Management) on March 24<sup>th</sup>.

Mr. Moore inquired about Citigroup's standing. Ms. Rubalcava responded staff does not work with Citigroup because they are not current investment managers. Mr. Moore then referred to the Questionnaire Response Summary and inquired what Citigroup meant by "may seek to amend specific insurance language". Ms. Bernstein responded this means the company reviewed DWP's actual insurance document and deleted particular items. She stated she did not have all of the details but they are one of the many managers who have issues with DWP's insurance regulations. Ms. Rubalcava inquired

if Standish Mellon had met the insurance liabilities. Ms. Bernstein responded in the affirmative, adding the summary needed to be updated.

President Romero listed the top six firms to be interviewed as Lincoln Capital, Fidelity, Hartford, Loomis, Sayles & Co., Wells Capital Management and Financial Management Advisors. Mr. Moore noted Citigroup was ranked number five and inquired if they were being excluded. President Romero pointed out Citigroup listed “no” under the caveats column but with an asterisk. He expressed it should either be a “yes” or “no”. Mr. Moore responded the firm did answer “no”, but struck out some detailed language under the insurance requirements and is basically trying to have it both ways. Ms. Bernstein commented Citigroup did not say they cannot meet the insurance requirements and suggested the Board invite them to the interviews and make it clear up front they must meet the insurance requirements or do not bother showing up. She added, if the Board decided to do this, Citigroup would then come before Financial Management, who would then become the alternate. Mr. Vazquez suggested inviting all seven firms to the interviews and wait to see who drops out. After more Board discussion, it was the consensus to invite the following firms to interview for the High Yield Fixed Income Fund: Lincoln Capital, Hartford, Loomis, Sayles & Co, Wells Capital Management, Financial Management Advisors, Citigroup and Fidelity.

Mr. Mirisola moved for approval of Resolution 04-113. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

Nays: None

Ms. Bernstein referred to a pie chart previously e-mailed to the Board and pointed out how the chart outlined the various segments of the Lehman Brothers Universal Index. She stated PCA was recommending the Board allow the High Yield Fixed Income managers invest in Emerging Market Debt (EMD), High Yield Eurodollar, and High Yield 144A to have the opportunity of matching the overall benchmark.

Mr. Moore indicated, with regards to item 2 and 5 of the memo titled “Draft Guidelines For Active High Yield Fixed Income Managers” (provided by PCA), he was unclear about the points being made. He noted in item 2 it states, “forward foreign exchange contracts, currency futures, and financial futures are permissible securities”, but in item 5 it states “Derivatives . . . . may generally be used for defensive purposes only, or to effect portfolio management decisions in a timely, cost-effective manner” .

#### **24. Reconciliation Memo – for FYE June 2003 Reports.**

President Romero indicated Mr. Moore had expressed previous concerns regarding this item and inquired if he was satisfied with the reconciliation memo. Mr. Moore stated he was pleased to have it and it was very helpful to him. He added the reconciliation pointed out there was inconsistency one year to another in the way staff treated the numbers in the summary document sent out to the DWP retirees and employees. Mr. Moore proposed there be more consistency as to whether or not securities lending short term collateral was included with short term investments, because one year it was and

then the next year it was not. Ms. Bhatia clarified the numbers were consistent; however, there was an area in the Annual Summary Report which reported all assets for presentation purposes only. She added, the financial statements do reflect the assets associated with securities lending and the related liability. Mr. Moore inquired when Ms. Bhatia says “the financial statements”, is she referring to the Simpson and Simpson audit or the summary documents sent out to the retirees. Ms. Bhatia responded the term applies to both. She explained the financial results presented in the Summary Annual Report were consistent with the audited statements (the Simpson and Simpson presentation). Ms. Bhatia added, that however, there is an area on the Summary Annual Report where only assets (stocks, bonds, cash, etc.) are presented. She stated in the past year’s presentation, securities lending assets were included with cash, but there should have been a note to indicate this. Mr. Moore reiterated it was done in one year and not the next. Ms. Bhatia concurred, stating there should have been a note to indicate the inclusion. President Romero inquired how it would be done in the future. Ms. Bhatia responded from now on the cash would only be reflected in the assets presentation because the securities lending income and associated liability was already reflected appropriately in the financial statements section of both reports.

Mr. Moore commented these were the numbers the Board reviews in terms of evaluating how well the Plan is doing. He expressed an improvement was needed with regards to the documents being sent to the retirees in terms of explaining what changes have been made in the overall assets, the return on the investments versus the benchmark, changes in the actuarial unfunded liability and what changes are being made in Department contributions. Mr. Moore stated it would take some discussion to simplify the content, because as it currently stands, the report takes a lot more sophistication in analyzing numbers than most people have. President Romero concurred with Mr. Moore and requested staff look into the issue.

#### **25. PCA memo – Q4’04 Performance Review – outstanding questions.**

Ms. Bernstein began by stating some outstanding detailed questions by Mr. Moore and Ms. Kuo had been raised regarding PCA’s 4<sup>th</sup> Quarter Report. She indicated a self-explanatory memo responding to the questions had been submitted by PCA and was in the agenda packet. Mr. Mirisola commented that PCA’s memos did a good job of answering the questions and was very informative.

#### **26. Retirement Plan Manager’s comments.**

- a) DWP Plan Newsletter for retirees (April 1, 2004 Edition).**
- b) General Items:**
  - 1. 1099R status report**
  - 2. Retirement Office status report (verbal)**

President Romero requested an update with regards to contracts, insurance and a general progress report on the negotiations with the new money managers.

Ms. Rubalcava passed out an organizational chart of the Retirement office and stated she had been the Acting Plan Manger for approximately nine weeks and wanted to give the Board a short overview of where the staffing stood. She reported there were a

number of employees back from disability, which included Sangeeta Bhatia, Conney Williams, Sara Ayala, and Anna Russo; that Irene Colon was hired as the new Utility Executive Secretary; Vikki Burks had returned after being off for four weeks due to a back injury; and Rody Abarro would be returning from disability on April 26th. Ms. Rubalcava emphasized how important the return of employees was to the Retirement Office, since there is a lot of work ahead for the Investment Section, which was severely understaffed.

Ms. Rubalcava informed the Board that all of the insurance requirements with the Boston Company, MFS, Fred Alger and Standish Mellon had been completed and this week some very positive large steps had been made with Delaware, INVESCO and Fidelity. She added they were moving forward with Earnest Partners and INTECH, but definitely still have some challenges with Northern Trust, to which she is giving an additional 30 days to work those problems out. Ms. Rubalcava indicated there were three new contracts staff was beginning to work on, and the contract guidelines and insurance, which the Board decided upon with regards to Aeltus, Wells Capital, and T. Rowe Price as a backup. She stated staff was preparing for the June 2nd interviews for an Emerging Market Manager, the RFI and RFP for the custodian bank and consultant, and staff is also looking forward to scheduling the High Yield Manager interviews.

Ms. Rubalcava thanked her colleagues at LACERS and the Fire & Police Pensions for their help in explaining how their office is structured and how their accounting and investment sections operate. She expressed that the Retirement office is in a transition period and requested the Board be patient with them, adding that any comments or recommendations from the Board would be welcomed.

Mr. Mirisola complimented the Retirement staff on their level of professionalism, especially with regards to e-mails, their effort in issuing the Form 700, and the way the "revised" Board meeting agendas are sent to the Board members prior to the actual meeting. He then indicated he had a concern regarding a certain issue on the organizational chart, but would discuss this with Ms. Rubalcava at a later time.

Mr. Moore noted on the organizational chart there were two Assistant Retirement Plan Managers supervising the same sections and inquired if this was an error. Ms. Rubalcava clarified there was a mistake on the graph and the Assistant Retirement Plan Manager should not have a line pointing down to the Investment Section.

Mr. Mirisola inquired if Ms. Rubalcava had any discussions with any of the other City Plans regarding their computerization system. He described Los Angeles City Retirement Plan's software, stating it does optical storage of documents, transfers data, and performs conversion processes. Mr. Mirisola suggested looking into this software rather than trying to come up with a new one. Ms. Rubalcava expressed that she had not discussed computerization with any of the other pension plans because her main focus and priority is closing out the contracts, completing the funding of managers, and moving forward with the guidelines; but she is aware of the computerization issue. Mr. Mirisola then proposed the implementation of a disaster recovery plan for the files in the Retirement office similar to that of the other pension plans.

Ms. Calvache inquired if any progress had been made in filling the vacant computerization positions in the Retirement office. Ms. Rubalcava responded that none of the positions had been filled because her first goal was to fill the vacant positions already existing in the office. She explained in the Administration Section, three of six positions were empty; in the Accounting Section, of four positions two were empty; and in the Investment Section there is only one employee dealing with the possibility of 15 investment managers. Ms. Rubalcava indicated, in moving forward, her second goal was to hire a Management Analyst for Training and Development by July 1st. She expressed she may, in the future, come back to the Board for a Chief Investment Officer; but in the next six months she did not see an immediate focus on computerization. Ms. Rubalcava indicated she and President Romero had briefly discussed computerization and reiterated her main focus was to build up on the foundation where vacancies needed to be filled and employees needed to be brought back. She stated there is also a need to establish procedures for the investment group.

Mr. Vazquez inquired where things stood with the hiring of an Assistant Retirement Plan Manager for the Retirement and Death and Disability Sections. Ms. Rubalcava responded she would first focus on the foundation, and the second phase would be the hiring of a Chief Investment Officer and an Assistant Retirement Plan Manager.

President Romero inquired, with regards to the money managers, did Ms. Rubalcava list Delaware, INVESCO, Fidelity and Northern Trust as having insurance issues. Ms. Rubalcava responded in the affirmative and listed Earnest Partners, INTECH and BNY among the others as having insurance issues. She explained the Board made a decision regarding Earnest Partners just last month, so this would not be cleared up immediately. Delaware, INVESCO and Fidelity were moving quickly. Northern Trust continues to be a challenge, and staff would update the Board on insurance issues at next month's Board meeting.

President Romero inquired at what phase was staff with regards to Aeltus, Wells Management and T. Rowe Price. Ms. Rubalcava responded they were currently negotiating prices, and there was no timeline.

Mr. Moore inquired, with respect to computerization, how much of the operation was going to focus on tracking investments. He stated, to his understanding, custodian banks play a very significant role in providing the necessary types of reports in tracking the investments, and he assumes staff is pursuing this aggressively and will be discussing this with the banks. Ms. Rubalcava responded Lou Mastros (Bank of New York) offered to help in providing additional reports during the transition, and staff is taking him up on his offer. She stated, in terms of the computerization, she has not received a full report on what the vision was, but had talked to staff and they informed her that RAP, death benefits, membership and retirement were to be on the same system so they can tap into each other.

President Romero inquired if RAP II had taken effect yet. Ms. Rubalcava responded, to her understanding, RAP II was technically on hold and staff had not been invited to any meetings recently. President Romero expressed that C-NET (a Retiree's tech group) had concerns about getting their mailings out. Ms. Rubalcava responded C-NET has

had two meetings since her arrival, and Kendrick Mah from the Retirement Office has been assisting them. She stated staff, through the City Attorney, has changed the language on the green card retirees fill out to have their e-mail address added to the DWP Retiree Directory.

Mr. Moore noted, with regards to the report on the 1099Rs, on page 26b2 of the agenda packet, it states "This problem could have an impact upon the member's 1099Rs for the 2004 tax year" and in another paragraph it states, " ITS and the Retirement Office will provide a review of the current master file to ensure all data fields that will affect 2004 1099Rs are now correct". He indicated the first statement bothered him because he was not sure what was being said with respect to the impact on the 2004 1099Rs. Mr. Harrington responded one of the things that occurred with the 1099Rs is that it doubled everyone's life to date excludable. He stated staff took care of everything enough to get the correct 1099Rs out but still has to go back and fix the life to date excludable amount so that there are no problems with the 1099Rs for the year 2004. Mr. Moore inquired if Mr. Harrington was reasonably confident there would not be an impact on 2004. Mr. Harrington responded, not as long as staff and ITS follow through on the requirements noted in the memo.

President Romero requested an update on the custodial RFP and the Plan consultant. Ms. Bhatia responded staff has prepared the custodial RFI and the only issue they are still working on is the appendix, which concerns the securities lending clauses that need to be added. President Romero inquired when completion could be expected. Ms. Bhatia responded this was a priority and would be completed as soon as possible because the contract with the bank will expire in August of 2004. President Romero requested this be a standing agenda item as an update. He then inquired about the RFP for the Plan consultant. Ms. Bhatia responded the basic RFP had been prepared and they are in the process of reviewing it. She added PCA's contract expires in August.

Ms. Rubalcava informed the Board that staff would be coming back to the Board in May regarding five contracts expiring June 30<sup>th</sup>, which need extensions. She explained some of the contracts require a simple six-month extension, but Boston would warrant a one-year extension. She stated the firm is requesting we sit down with them to review and renegotiate the contract.

Mr. Moore commented, it would be useful to the Board, if as part of staff's future reports, they would provide a one-page report for each investment manager, highlighting the status and an estimated guess as to when they would be funded. Mr. Moore then inquired how far is staff from funding the Core Fixed Income. Depending on how far away that is, and given the fact Standish Mellon has a policy in place at DWP's request to hold the portfolio as is, we may be doing a disservice to ourselves in holding them to this. He commented he had discussed with PCA if the Board should be revisiting any constraints that were placed on Standish Mellon. Ms. Rubalcava responded this was her first time going through an RFP process at DWP with investment managers, but in her experience from the City, once a candidate is chosen, it is a good 3 to 4 months before you negotiate, sign and put a contract into place. She stated she is expecting, per the letters from the Core Fixed managers interviewed, that insurance will not be an

issue, but if it becomes one, she would come back before the board in May to alert them early on. She expressed, in the short time she has been in the Retirement office, there has not been a set timetable and because this is a new process she did not know if there was anyone in the office who could say how long it would take. Mr. Moore reiterated his concerns of constraining the portfolio managers too much, given what is currently happening in the market. Ms. Bernstein commented there would continue to be more changes in the market and obviously the insurance issues and understaffing in the Investment Section has affected the process. She expressed PCA's opinion is that the constraints on Standish Mellon could hurt the existing portfolio. Ms. Bhatia stated Standish Mellon oversees a bond portfolio. She explained that the only restriction placed concerned the position that was transferred from Highmark portfolio to Standish Mellon. Ms. Bhatia added, a resolution stated that Standish Mellon was required to watch the portfolio, and they are authorized to sell holdings if they see something in the market, which prompted them to sell. She stated Standish Mellon did not, however, have authority to change the portfolio to fit their product.

Robert Harkins (The Boston Company) approached the podium.

President Romero recognized Mr. Harkins.

Mr. Harkins reported Standish Mellon's portfolio is very high quality and is the continuation of a portfolio that began being managed by the Boston Company before they spun out their fixed income assets to Standish Mellon a few years back. He informed the Board they were in a good position in some ways. Their portfolio is very high investment grade quality. Also, on some of the longer duration assets they have way above market coupons. He explained that from a buy and hold standpoint, which is the way Standish is running this portfolio in order to minimize turnover until DWP gets to their new asset allocation, they are in good shape. Mr. Harkins pointed out the Board should be concerned with the fact that everyday the portfolio's duration gets shorter, and DWP's fund has a lot of cash in it. He stated, regardless of what is currently happening in the markets, Standish Mellon will use their research and credit analysis process to make sure DWP does not have any assets facing permanent impairment.

Mr. Mirisola commented, as long as he has been on the Board, it was presented to the Board that, with regards to performance, DWP's buy and hold strategy on bonds has been the reason they have outperformed their peers. He added, the incremental amount of money other plans tend to make on trading their bonds end up being lost in fees. Mr. Mirisola stated the plan strategy of just buying and holding the bonds until maturity has proven to benefit the Plan, and so as long as they are being watched he did not have an issue with it. Mr. Moore commented that the interest rate environment is at a very historic point in terms of the bond market right now, but it is turning around. He stated that if the two portfolio managers selected are going to be more actively engaged in swapping and putting together a portfolio of significantly shorter duration than what exists now, the Plan will lose, as opposed to giving the managers the freedom to dispose of some of the longer duration bonds. He then requested PCA, staff and the Boston Company discuss this issue and report back to the Board at the next meeting. Ms. Rubalcava suggested having a representative from Standish Mellon attend and report to the Board at next month's meeting also.

## **27. Future agenda items.**

Mr. Mirisola requested an update on the missing beneficiaries, the annual problem with RAP involving health benefits for the retirees, and the activity of the Merrill Lynch portfolio be placed on next month's Board agenda.

Mr. Vazquez requested a report on where things stood with TCW, with regards to the sale of the bond not owned by DWP. He also suggested staff look into the data submitted to the actuary regarding the calculation of the post-retirement healthcare cost. Mr. Vazquez reported the previous information provided excluded 1,600 employees, and now the Department is faced with an additional \$30 million a year liability beginning this year because of the incorrect information. He expressed he would like to know if the data used to get the number of retirees for the actuarial evaluation was incorrect and why.

President Romero commented, with regards to the process of bringing on new managers taking two to three months. The language on insurance is beyond the Board's control but the negotiation and fees is something that is within staff's control. He stated, typically, in the past, the negotiation of fees was done within the first week and suggested aggressively coming to an agreement with the fees. Then give the selected firms the Plan's boilerplate language and insurance. Ms. Rubalcava stated that there is a timeframe of insurance in the contract clearly stating 30 days, and the Board does have the right to exercise this, cancel the contract, and move on to the next investment manager. She added, next month she would come back with an update on the insurance with each investment manager. President Romero emphasized he wanted to do whatever could be done on their end to get the ball rolling.

Mr. Moore requested a resolution he drafted be considered at the next Board meeting after staff has reviewed it. He explained the resolution was an attempt to recognize that, back in December, the SEC sent out a letter to all investment advisors, including PCA, requesting they provide the SEC with a great deal of data and information in order to pursue an investigation as to the types of potential conflicts of interest or undisclosed incentives. He expressed that it was prudent of the Retirement Board, as fiduciaries, to request PCA to provide the Board with an executive summary of the materials they have provided the SEC. Ms. Bernstein indicated she would be happy to do so and stated that PCA has provided this for other clients.

Ms. Calvache inquired if the remodeling of the Retirement Office had been completed and had all the employees' furniture been made ergonomically correct. Ms. Rubalcava responded that different phases of the remodeling had been completed, but there are some sections that are still not completed. She indicated the Retirement Section was told they would be given a much needed and larger file room and would be expanding into the Controller's office space next door. However, the Controller's Office is still occupying the space. She reported the remodeling that has been completed is what was possible within the existing square footage. Ms. Rubalcava stated that the furniture that was ordered has arrived. She stated the need for ergonomic furniture was just recently brought to her attention and the order has been placed.

Mr. Mirisola inquired about the status of the backup of the beneficiary forms. Mr. Mirisola informed Ms. Rubalcava that the Retirement Office does not have a backup of the files in case of a disaster. He acknowledged the Retirement Office did not currently have the staff for this assignment. However, he suggested assigning someone to collect the data, record the beneficiary and send a confirming letter to the employees due to the existing problem of employees passing away and having named people on their beneficiary forms who are no longer alive. He requested this be placed on next month's agenda. Ms. Rubalcava concurred with Mr. Mirisola on not having the staff for such a project, but that in May or June, staff could come back to the Board with a proposal of what the project would cost and what staff would be needed. She added, the office currently did not have any student workers, but when hired, they could also assist staff on this project. Mr. Mirisola suggested the beneficiary information at least be put on a database and be stored in alternate locations.

The Board meeting was adjourned at 11:40 a.m.

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JAVIER ROMERO  
President

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ADRIANA RUBALCAVA  
Secretary

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IRENE COLON  
Recording Secretary