

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

MEETING – July 21, 2004

Present:

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

Absent:

Henry Martinez	Acting General Manager
Vacancy	

Others Present:

Adriana Rubalcava	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Plan Manager
Tom Harrington	Consultant

Irene Colon	Recording Secretary
Sarah Bernstein	PCA (Pension Consulting Alliance)
Mike Wilkinson	Deputy City Attorney

The meeting was called to order at 10:14 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Rubalcava indicated there was quorum of the Board.

1. Approval of Board Minutes:
  - a) April 7, 2004 (Special Board Meeting)
  - b) May 19, 2004 – With Noted Additions (Regular Board Meeting)
2. Termination from Monthly Rolls as of July 2004:

Retirement Resolution for July 2004.  
Termination from the July 2004 Family Death Benefit Roll: Juan Gonzalez, Daniel Montenegro, and Sarah Peters – Attained 18 Years of Age.  
Termination from the June 2004 Permanent Total Disability Roll: Leon Ordorica – Returned to Work 5-24-04.  
Resolution Terminating Henrietta E. Burton, Bamma K. Decker, and Corryne Inohara from the July Survivorship Roll as a Result of Their Death.
3. Correction to Resolution 04-128 Denying (On Appeal) the Payment of Permanent Total Disability Benefits from My 28, 2003, to Mr. Gary G. Brown
4. Correction to Resolution 04-127 Denying (On Appeal) the Payment of Permanent Disability Benefits from December 16, 2002, to Mr. Richard H. Hoffman

President Romero moved adoption of the above items 1 through 4 on consent agenda with the exception of item 1b, in which the Board requested changes in the May 19, 2004 minutes. He indicated he had not reviewed the changes that were made and would like to table the item. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, and Calvache

Nays: None

## PUBLIC COMMENTS

President Romero recognized Mr. Dave Huff (Active DWP Employee).

Mr. Huff approached the podium, stating he had addressed the Retirement Board a couple of months ago and had come again today to reiterate his concerns. He stated, as an active member, he voted for the representatives on the Retirement Board to represent his interests. Mr. Huff expressed he was concerned that if the Retirement Board is not consulted and is not allowed to voice its opinions on changes that affect the Plan, such as the appointment of the current Acting Retirement Plan Manager, Ms. Rubalcava, then he feels his vote was wasted. He stated he does not feel as if he has been represented in regards to this particular issue and he feels the Board should be consulted and should make the decisions on every change that could possibly affect the interests of his Retirement Plan members. Mr. Huff returned to the audience.

President Romero recognized Mr. Charles Zinger (Retiree).

Mr. Zinger proposed a study for a change to the Plan, which will have no cost. He stated he wanted to have the option of removing his oldest daughter as the beneficiary to receive his pension upon his death, which was reduced based on her life expectancy. Mr. Zinger indicated he took a reduction on his pension so his daughter would get his pension after his death, and he had an understanding with her that she would share the money with her siblings. He stated he was proposing that employees and retirees be allowed to change to whom the check is being sent to from the Department without changing the original life expectancy calculation.

Mr. Zinger stated he understands there would be some administrative costs in setting up the payment to be sent to a different address, which should be borne by the retiree. He explained the money will be best directed where the retiree desires and the Plan would not be affected because the payment would stop upon the death of the named beneficiary.

President Romero informed Mr. Zinger that three minutes is all that is allowed for each public comment and the Board did not have time to thoroughly discuss his issue. He recommended that Mr. Zinger discuss the issue with the Retirement Office staff. Mr. Zinger responded he had already written a letter to staff and they responded the change to the Plan could not be done. He stated he worked for the City Attorney's Office for 35 years and was familiar with the law in this area, adding the Courts were liberal regarding

this issue so the Plan could be changed. Mr. Zinger expressed he would rather not bring a lawsuit against the Department, due to costs to the Plan in court and attorney fees and also the Court would take control and dictate the changes. Therefore, he would rather the issue be settled by the Retirement Board. He stated he was just requesting the Board consider this issue, have someone look into it, and place it on the next Board meeting agenda to be discussed. President Romero informed Mr. Zinger that the Board would discuss the issue with staff and staff would provide a report to the Board. Mr. Zinger requested a copy of the report.

Ms. Rubalcava commented that if Mr. Zinger was a retiree of DWP the item could be placed on the agenda and the issue could be addressed. However, if he is a retiree of LACERS or Fire and Police Pensions it may be more appropriate to forward his concerns to LACERS. Mr. Moore clarified, in Mr. Zinger's case along with a few others, they were put into the DWP retirement system at the time several changes were made with respect to the City Attorney's Office. Mr. Moore suggested putting the item on the next Board agenda for discussion to see how the Board wants to proceed before performing a study. Mr. Zinger requested a notification of when the item was going to be placed on the agenda.

Ms. Calvache inquired if Mr. Zinger received a response to his letter. Mr. Zinger responded in the affirmative, stating he was told this was the way the Plan is but he feels it is arbitrary; therefore the Court has a right to change it.

President Romero recognized Mr. Frank Miramontes (Active Employee).

Mr. Miramontes stated he was a Plan member for 30 plus years, a ratepayer to DWP and a taxpayer to the city of Los Angeles. He indicated he had previously addressed the Retirement Board regarding his concern of the retirement funds being placed at risk by having an unqualified Plan Manager. Mr. Miramontes expressed he was also concerned that the placement of the Plan Manager was not through the civil service process. He stated the person appointed should not be beholden to the General Manager and that person should not have his or her checks signed and hours paid off by the General Manager or the person in charge of Finance and Accounting. He stated this person should be completely and wholly responsible for the Plan only, which cannot happen if he or she is working for a Department manager. He added this was why the process was in place, this is why it needs to be followed, and why the Plan is at risk today.

Mr. Miramontes expressed he was concerned that the Retirement Board members have no say as to important decisions that are made. He pointed out the Board has fiduciary responsibilities and needs to be consulted on the decisions made about overseeing the Plan. Mr. Miramontes noted in the newspaper the consultants are calling the Department cash cows because they see money coming their way without the responsibility of doing anything. Therefore, it is not a very good time to have consultants doing work that DWP civil service employees should be doing and then turn around and say it is the responsibility of the consultant. He stated as a Retirement Plan member, his retirement is dependent on decisions made by the Retirement Board and the Retirement Plan Manager and there is no way he can go after a consultant if they make

a suggestion or recommendation that goes awry. Mr. Miramontes expressed he knows it has been thought that when he addresses the Board in public comments it is as a personal agenda, and he clarified that it is personal. He indicated he has over 30 years with the Department and a good portion of his life savings is with the retirement system. Mr. Miramontes again requested the Board to consider going through the appropriate process of placing a qualified person in the position of Retirement Plan Manager and have the entire Retirement Board make the decision as to whom this person should be. Mr. Miramontes returned to the audience.

President Romero recognized Mr. Don McPoland (Retiree).

Mr. McPoland expressed he and other retirees that he has spoken to are quite pleased with the change in the Retirement Plan management, and have the utmost confidence in the current interim employee. He stated the tremendous turmoil that occurs in the Retirement Plan office under the previous Plan manager has ended. He reiterated that he and other retirees are pleased there has been a change and they will await the outcome of who the permanent Retirement Plan Manager may be in the near future. Mr. McPoland returned to the audience.

Mr. McCallum arrived at the Board meeting at 10:25 a.m.

Ms. Calvache commented it was her understanding that Ms. Rubalcava issued an emergency appointment bulletin for Assistant Retirement Plan Manager and she noticed that a memo was put out and then a revised copy was issued. She stated the Retirement Board was not aware of the appointment bulletin and she inquired if Ms. Rubalcava checked with Human Resources because Management Analyst is a low classification for promoting to an Assistant Retirement Plan Manager. She also stated she wanted to make sure that this was correct and she also wanted to know if the qualifications had been changed since the last bulletin.

Attorney Wilkinson informed Ms. Calvache that public comments is just for comments and not for responses and if the Acting Retirement Plan Manager wishes to respond it would have to be at another time because this was not an agenda item. He further explained if Ms. Calvache wanted to make a brief comment that was fine, but anything beyond that would not be appropriate. Ms. Calvache stated she just wanted to make sure that everything was checked through human resources.

Ms. Rubalcava requested Ms. Christina Munoz (Management Asst. in Retirement Office) to approach the podium. She informed the Board that staff did go through the correct process and the memo received all the appropriate signatures. Ms. Rubalcava stated the first notice went out and it did not state Management Analysts, Senior Utility Accountants or Principal Utility Accountants could apply. She stated Kerry McCorkle from IBEW called and requested that staff investigate. Ms. Rubalcava explained after the research staff conducted, it was found that in 1998, one announcement was issued for the Assistant Retirement Plan Manger and it did not have Senior Utility Accountant, but in the year 2000, an announcement went out for the Assistant Retirement Plan Manger and Senior Utility Accountants were allowed to apply. She indicated she emailed Mr. McCorkle and informed him about their findings and that Senior Utility

Accountants could apply for this position because historically it was on the notice and there should be consistency. Ms. Rubalcava expressed if the Board had any additional questions Ms. Munoz could elaborate.

Ms. Calvache expressed her only concern was that she was not aware of the bulletin being issued and when she saw it she was surprised to see Management Analysts could apply, knowing the background and the intensity of the qualifications. She requested, in the future, she be informed in case she receives calls from employees inquiring about open positions in the Retirement Office. Ms. Rubalcava responded if Ms. Calvache receives any calls, as recommended in the past, she should feel free to forward them to the Retirement Office. Ms. Calvache stated, for the record, she wanted to make sure that she is informed so when she receives calls from employees she does not have to refer all the calls to the Retirement Office.

Ms. Munoz approached the podium.

President Romero recognized Ms. Munoz

Ms. Munoz clarified when there is an emergency appointment, one has to allow persons in the classifications that were allowed to take the test during the last exam bulletin to apply. She stated Management Analysts in 2000, with 4 years of experience supervising staff doing pension work, were allowed to take the exam and that was the reason when the revision to the bulletin was done the Management Analyst classification was included. Ms. Munoz added, those individuals would also have to be eligible under the new exam bulletin, which has not been established yet to be eligible for a permanent appointment. Ms. Munoz returned to the audience.

5. Report of Payment Authorizations as of June 2004.
6. Distribution of Securities by Type and Class as of May 31, 2004.
7. Equity Investments as of May 31, 2004.
8. Report on Long Term Investments as of May 31, 2004.
9. Short Term Investments as of June 30, 2004.
10. Statement of Investments Owned as of May 31, 2004.
11. Notice of Deaths for June 2004.
12. PCA Report on Costs in Connection With Core Fixed Transition.

Ms. Calvache moved to approve items 5 through 12 to be received and filed. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

13. Nominations and Election of President and Vice-President of the Board of Water and Power Employees' Retirement Plan

Ms. Calvache nominated Javier Romero for President of the Retirement Board. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

President Romero passed the gavel to Ms. Calvache and nominated her for Vice Chair of the Retirement Board. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

President Romero indicated historically, at this time, the Board takes the opportunity to address the committees but it is not on the agenda. He inquired if it was okay to proceed or should he wait until the next Board meeting. Attorney Wilkinson responded it would be better to have it at the next meeting as a precaution since it was not on today's agenda.

#### 14. Discussion and Possible Action Regarding Board Minutes' Documentation

President Romero stated that he and Ms. Calvache had requested this item be placed on the agenda and it was not as a result of how other plans prepare minutes, but that two items they felt should have been in the minutes were not. He expressed his concern that items that are significant should be on the agenda and in the minutes for historical documentation as to why the Board did what, when and how. President Romero stated his concern at the time was whether \$750 million was going to be divided equally between two money managers, or if one manager was at a certain advantage by getting an additional \$300 million. He stated the minutes should reflect that no one was at a disadvantage or advantage, and in the future one can read the minutes and know exactly what transpired. Ms. Calvache agreed with President Romero's reasons for wanting the issue placed on the agenda.

Mr. Moore commented he did not think that anyone disputes the fact that important information should be in the minutes, but obviously there is going to be some discretion on the part of the minute taker as to what they consider important and sometimes they miss something, which is understandable. He stated one thing that has struck him since he has been on the Retirement Board is that the minutes are very detailed, almost to the point of being narrative. He added he has never been in an organization before in his life that had as detailed minutes as the Retirement Board minutes. Mr. Moore expressed his preference would be to have a much more abbreviated form of minutes. He noted this was a different situation where the active and retired employees could look to the minutes on the internet to find out what was discussed and what were the pros and the cons of the issues that were discussed. He stated one of the questions he would like to ask of staff is if there is any feel for how many hits there are on the internet for the reading of the minutes on a regular basis. Ms. Rubalcava stated she did not have the number, but it would be provided at the next Board meeting. Mr. Moore stated there was no sense in staff going through a lot of work if there are not a lot of people interested in the minutes.

President Romero commented that the Retirement Board was at a historical era right

now, because the Board is coming to times with how other pension funds run. He stated he feels that the more the minutes are detailed on everything the Board does, the better. President Romero gave an example of looking back at the Plan's STIF fund with Bank of America, wherein they were paying extremely high fees, and the Board's custodian bank (Bank of New York) has their own STIF fund with lesser fees. He indicated there is no reflection in the minutes from way back and there is no historical data as to why the Plan was paying more money.

Mr. Vazquez expressed he concurred with Mr. Moore's opinion that the Board minutes were overly detailed and it presented a problem time wise. He stated he did feel that things of importance should be kept in, but he would appreciate it to the extent they could be abbreviated.

#### 15. Investment Manager Report

Ms. Rubalcava stated, per President Romero's request, she had a handout listing all of the contracts and transitions that staff is currently working on. She stated of the \$5.9 billion in the pension Plan, \$4.978 billion is currently being invested, and therefore there is less than \$1 billion left to invest. Ms. Rubalcava indicated, per President Romero's request, she put together a list of outstanding contracts and transitions. She also noted Mr. Rue included a memo in the Board agenda packet regarding future transitions and he also assisted in prioritizing the contracts. Ms. Rubalcava commented that T. Rowe Price's contract was scheduled to be signed by July 20th and a Fed Ex package is expected today with their insurance and paperwork, but was delayed. She reported, with regards to Fidelity, the contract for the International mandate could have been signed, but it is a commingled account that was approved by the Board and their guidelines do not look like the ones approved by the Board. Therefore, the guidelines were brought to the Board today as an agenda item. She stated once the Board approves the guidelines from Fidelity's commingled account, and the contract has been signed, then transition can be discussed, which is also on today's agenda item.

Mr. Moore suggested, as far as future integrations, it would be useful if the areas that are changing were highlighted so that nothing slips through the cracks.

Ms. Calvache inquired about the status of Earnest Partners. Ms. Rubalcava responded that staff has sent Earnest Partners the contract, the insurance is being worked out, but in terms of priority, Earnest Partners has been placed below the listed top ten as a priority. Mr. Moore inquired, when Ms. Rubalcava says "priority", does this mean the second phase is going to be on a slower track. Ms. Rubalcava responded in the affirmative. Mr. Moore expressed that it troubles him in the sense he is very anxious to get all of the funds fully invested. He stated he realizes that she is going after the bigger ones first, or those that are more critical such as the custodian bank. Mr. Moore then inquired what thought did she and staff have with respect to how to minimize delays in closing the second phase. Ms. Rubalcava responded that the Retirement Office has a limited number of staff that has experience and actually works on contracts. She stated staff requested PCA to put together a memo to discuss all transitions in the future so that they could have a layout, a list of priorities, and their views on how staff

could move on this effectively. Ms. Calvache inquired, when Ms. Rubalcava states she does not have enough staff, how many employees in the Retirement Office are capable of working on contracts. Ms. Rubalcava responded there were only two employees who have contract experience, which are Ms. Bhatia and Mr. Abarro.

President Romero indicated there was a public comment card regarding this issue from Wells Capital.

Mr. Harrison approached the podium.

President Romero recognized Mr. Tom Harrison of Wells Capital.

Mr. Harrison stated subject to some issues that need to be resolved later on in the meeting regarding the transition, Wells Capital is in a fairly unique situation in that they have just completed not only the transition, but also the hard work of getting the agreement signed. He stated short of getting the final original documents to Mr. Neaman, Wells has completed the process and understands that most of the account would be funded in cash as opposed to waiting for other assets to be transitioned out. He stated Wells wanted to bring it to the Board's attention that subject to the negotiation of fees, Wells could be up and going with the majority of the high yield account as soon as possible. Mr. Harrison returned to the audience.

President Romero inquired if the other issues besides the negotiation of fees were resolved. Ms. Rubalcava responded by Wells completing the insurance requirements on the core fixed mandate it also takes care of the high yield mandate. President Romero inquired if it was conceivable that Wells could be funded sooner. Ms. Rubalcava responded the contract language and fees still needed to be worked out. Ms. Bhatia commented it might be helpful to review the sequence provided by Mr. Rue in the agenda packet under item 22.

#### 16. Report to the Board Regarding Quarterly Newsletter for Active Employees – Possible Discussion

President Romero stated he and Ms. Calvache inquired about the active employee's quarterly newsletter at the last Regular Board meeting. Ms. Rubalcava indicated she was not aware that there was such a newsletter and she found that there has only been three editions of the quarterly newsletter in the last two years. She stated in her general comments she was going to report that Mr. Conney Williams was selected as the Management Analyst II for the retirement seminars and one of his responsibilities will be the output of the quarterly newsletters. She explained Mr. Williams could not attend today's Board meeting because he was at a retirement seminar, but it is expected newsletters will be issued for the fall, winter, spring, and summer.

Mr. Moore commented, in reviewing the newsletters included in the agenda packet, staff might want to visit with the Public Affairs staff for suggestions with respect to the formatting. He expressed in reviewing the newsletter it almost seemed as if he was reading an insurance document instead of it being informational. Ms. Rubalcava

responded that staff previously worked with the Public Affairs staff for the Intake magazine, so they can request assistance for the newsletter as well. She added Mr. Williams was given a new program on his computer for the layout.

17. Report on Transition Costs for Core Fixed Income from BNY Global Transition Management

President Romero introduced item 17 and inquired if any Board discussion was necessary. Ms. Rubalcava stated Mr. Moore requested that Mr. Lou Mastro (BNY) provide a letter regarding this item. She indicated the letter was written by Mr. Kal Bassily, who is responsible for the transition.

Mr. Moore stated with regards to the email and the letter from BNY included in the agenda packet, their still exists PCA's problem of trying to provide estimates to the Board as to the likely transition costs. He explained PCA received estimates from each of the firms interested in bidding and those estimates included both market impact and opportunity cost. Mr. Moore stated the original estimate submitted to the Board by BNY did not include those costs. He expressed it was BNY's obligation to provide comparable estimates so that the Board has apples to compare to apples. He stated his only complaint was that everybody ought to be able to provide numbers on the same basis.

Mr. Keith Kuhn of BNY approached the podium.

President Romero recognized Mr. Kuhn.

Mr. Kuhn explained that BNY's response was based on the performance language in the transition contract. He stated today BNY brokerage has delivered a report on the transition that was completed a couple of weeks past. Mr. Kuhn suggested that in between now and the next meeting, staff, PCA, and BNY Brokerage should hold a telephone conference and then come back and discuss this issue. He concurred with Mr. Moore that the estimate provided was not apples to apples. President Romero commented that typically PCA submits a report for a post trade analysis. He stated once the Board has reviewed the report, Mr. Moore's concerns could be addressed in a little more detail. Mr. Kuhn agreed with President Romero. President Romero recommended, if the post trade analysis was ready by next month, Mr. Kuhn should attend the meeting and a healthy discussion could be had.

Ms. Bernstein (PCA) approached the podium.

President Romero recognized Ms. Bernstein.

Ms. Bernstein agreed that there was a discrepancy in PCA's original estimates when they were getting bids from transitional managers in terms of the different ways the estimates were being calculated. She stated as BNY's letter states, they came back with a new tracking error, which is not quite comparable to what PCA was getting from the other companies. She stated since the transition has been completed it would be useful for the Board to go through it when PCA has the post transitional analysis

completed and at that time be able to clarify what the differences were between the different original estimates. Mr. Vazquez requested an analysis from PCA of the transition for the next Board meeting also. President Romero requested a transition for the cash as well. Ms. Bernstein stated that PCA would perform a post transition analysis, but they have not received anything from BNY as of yet. However, as soon as they do, and since some of it was funded directly to cash to the managers, they will do a post transition analysis of that piece of the transition and present both of these to the Board by the next meeting if they receive the information in a timely manner. President Romero suggested giving the authority to the Bank of New York and maybe they could do the analysis on the cash as well. He then inquired of Mr. Mastro (BNY) if this was possible for them to do at no charge. Mr. Mastro responded in the affirmative.

Ms. Bernstein returned to the audience.

18. Status of Recurring Annual Issues Regarding Health Plan Subsidies and Premium Changes in Retirees' Pension Checks

Ms. Rubalcava announced that there were no problems this year. She indicated staff did receive a few calls but, it was concerning Kaiser Permanente due to their increase in fees. She stated those calls were forwarded to the Health Plans Office. The Board expressed their gratitude to Human Resources and ITS.

19. Electronic Data Management System – Estimate of Cost on Scanning Beneficiary Designation Forms for Disaster Recovery

Ms. Rubalcava informed the Board that staff put together a memo providing four options to choose from. She stated staff has been able to identify money in the budget, but if the Board decides to go with staff's recommendation or anything under \$300,000, staff can move on it. She stated what staff did discover was that if the beneficiary forms are going to be scanned, legal divorce settlements must be scanned also because the legal agreement supersedes the beneficiary form. Ms. Rubalcava clarified this was not an Electronic Data Management System (EDMS) program, but a disaster recovery in case of an emergency to protect members in terms of their beneficiary forms. She indicated it was a small step to the bigger issue of EDMS.

President Romero inquired whether, under proposal #4, this could be utilized once the Board decides to go with a pension gold program or would the whole process have to be redone.

Ms. Linda Le (Retirement Office) approached the podium.

President Romero recognized Ms. Le.

Ms. Le stated Accounts Payable, Water, and Power systems are currently using FileNet now. She indicated she spoke with FileNet, which is actually through an EDMS project being looked at by ITS. She explained the system is expandable and can perform different functions depending on how the Board wants the features set up. President Romero stated he did not want to have to go back and pay another \$300,000 if they are

not compatible. Ms. Le stated that the different FileNet systems are compatible with each other. She added they can read off of each other, but access for each section is granted by the respective administrator.

Mr. Moore inquired what should be included in the EDMS system. He also inquired is FileNet likely to be the filing system that would be used, or does it lend itself to easy conversion to some other system if that is what is chosen by the ultimate EDMS. Ms. Rubalcava encouraged the Board to keep in mind that this was just the first step in EDMS to address Ms. Calvache's concerns of an emergency. She clarified EDMS was historically supposed to be a Department wide project. Ms. Rubalcava stated in the next budget staff could look to plan for the future and could start creating and putting on paper what an EDMS program should look like. Mr. Moore expressed he was under the impression that the difference between an EDMS system, and just simple electronically capturing an image, is that the other has indexing that goes with it and one can move around in a database and access it for various purposes. He stated the only question he is asking is, assuming by having this index in the FileNet system that basically one is allowing for an easier migration, should one ultimately go to a fuller scale EDMS. Ms. Le explained when ITS looked at FileNet, they were looking at it for the purpose of an EDMS, so it does lend itself into expansion into a data management system if it is decided that this where the Retirement Plan wants to go in the future. However, the Retirement Office is looking at it now as disaster recovery only. Ms. Le left the meeting.

Ms. Calvache inquired if staff would follow up with the Board. Ms. Bhatia informed the Board they needed to make a decision out of the four options presented. Mr. Vazquez noted staff was recommending the Board adopt option #3 with the use of three limited positions, job completed in 6 to 12 weeks, and at a cost ranging between \$41,000 and \$61,000. He then motioned the Board adopt option #3. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

Mr. Vazquez commented this would call for the backup of beneficiary forms and related legal documents, adding there were still a lot of other documents that need to be backed up. Mr. Vazquez requested staff come back with a plan as to what should be done next and what the estimated cost would be. He also requested staff talk to the budget manager, Jeff Peltola, to see how the limited positions are going to be handled in terms of the staffing freeze. Ms. Rubalcava indicated staff did talk to IBEW regarding the limited positions. She stated the computerization positions that have not been filled in the Retirement Office would be used for the limited positions.

President Romero inquired, to prevent scanning twice, was there anyway to do some sort of campaign or notification to employees to update their beneficiary forms. Ms. Rubalcava responded staff had previously sent out a letter requesting employees to update their beneficiary forms but did not receive a big response. President Romero suggested sending the notification along with the paychecks and have the employees sign off with their supervisor. Ms. Calvache suggested having a notification printed on the bottom of employee's pay stub in red ink. Ms. Rubalcava stated staff would look

into the suggested options.

20. Review and Approval to Proceed with the RFP for the Investment Consultant for the WPERP.

Ms. Bhatia noted there were a couple of changes starting with page 20.5 of the agenda packet and page three of the RFP, wherein it states "At least three of the consultant's clients" and it should state "At least two of the consultant's clients." She indicated page 20.11, number 14 should note this same correction.

Ms. Rubalcava pointed out there were two options that were laid out in the memo for the Board to choose from. She stated if Option A was chosen it would require a Special Board meeting on October 27. President Romero inquired when PCA's contract expires. Ms. Rubalcava responded their contract expires at the end of October. Mr. Vazquez clarified the memo stated PCA's contract ends on October 21, 2004. President Romero inquired if the evaluation is for two months. Ms. Rubalcava responded in the affirmative. President Romero stated this was a little excessive. Ms. Rubalcava responded there is no way to know how many responses to the RFP will be submitted, therefore staff needs to be prepared. President Romero inquired if PCA was open to closing the timeline so that their contract does not run out. Ms. Rubalcava indicated she was requesting the Board's permission to ask PCA for a two to three month extension on their contract.

Mr. Vazquez inquired if the RFP was the same one used when the Board engaged PCA. Ms. Bhatia responded that the RFP had been revised, but is similar to the previous one. Mr. Vazquez inquired if the RFP was asking for anything different in the current contract than what they were asking for in the PCA contract. Ms. Bhatia responded in the affirmative, stating the contract was requesting real estate and alternative investments. Ms. Rubalcava stated, because the Plan has moved to a new full discretion, she included two additional items of advising the Board on policies and procedures for oversight, and on the new full discretion. Mr. Vazquez noted the Board has had a contract with PCA for three years and he has been comfortable with their advice and consulting work. He inquired why the Board could not just amend PCA's current contract to the extent they be amenable to include the additional items and extend their contract for a longer period of time. Mr. Vazquez commented he did not know what the point was in going forward with an RFP process for an investment consultant. President Romero responded in the initial discussion the Board had an issue of the real estate being a considerable amount more money according to Mr. Emkin (PCA). He expressed it would be prudent to look at other consultants with similar recommendations regarding real estate and alternative investments to make sure the Board is not paying too much. Mr. Vazquez inquired why the Board could not retain PCA as general consultants or hire a firm to work with the Board as a consultant in helping them fund the real estate and alternative investment mandates.

Mr. Moore expressed he was uncomfortable with the fact that there is not a list of tasks to be performed by the consultant. He stated the present fees PCA is being asked to bid are basically a flat fee and the Board may want to entertain, in addition to this, a billing arrangement based upon utilization for things over and above what might be

anticipated. He then inquired of Mr. Vazquez when his office works with the auditors if they have a fee plus billable hours. Mr. Vazquez responded it was basically billable hours by type of function. President Romero inquired of Ms. Bernstein what was the industry standard practice regarding this issue. Ms. Bernstein stated, in PCA's experience, a number of the \$1 billion plus pension plans hire a general consultant and also specialized consultants in real estate. She stated PCA has put in line item prices and a general flat fee, which is typically bundled and gives one a discount for having a full package. She gave another example, stating with some of PCA's larger clients they have a combination where they are billed a flat fee on a retainer basis for general consulting, but then for private equity they will bill on a project by project basis or have a separate retainer. Ms. Bernstein stated billable hours, in her experience is more in the legal field and clients usually want to have some constraint on the billable hours so they will do it on a project basis for a consultant rather than outright hours.

Mr. Vazquez inquired in going out with the RFP what could the Board anticipate in getting in terms of a consultant to help fund the Department's real estate and alternative investment mandates. He stated there was nothing specific as to what the Board would be requesting of the consultant in the RFP. Ms. Bhatia stated it was anticipated the consultant would assist with the searches for those investment mandates, the evaluation of performance, and the ongoing items the Board may need considering the new structure. Ms. Rubalcava stated PCA would be providing the education component for the alternative and real estate mandate and the new consultant would work with the Board and staff regarding the RFP and evaluations. President Romero added the consultants would also aid in selection of the firms, and on a continued basis advise the Board.

President Romero stated the initial fees PCA quoted to the Board were based on all of the manager searches and once the manager takes over, the consultant would be basically just monitoring. Therefore, the fees should be explored under that environment. Commissioner McCallum agreed with President Romero, stating it would be a good check and balance and he would like to see what is out there as far as other fee structures. Mr. Moore commented that reissuing the RFP to see what else is out there was a better way of doing business. He expressed his concern that there were a number of things in the RFP that might be improved upon. Mr. Moore also suggested requesting PCA to extend their contract long enough so as not to be pinned in by the expiration date. Ms. Rubalcava indicated she had a discussion with Mr. Rue, wherein she informed him that she would be coming to the Board requesting an extension. Ms. Bernstein indicated that PCA was absolutely willing to extend the Department's contract in order for the Board to conduct a thoughtful RFP process. President Romero inquired if the fee for the extension had been discussed. Ms. Bernstein responded in the negative, stating it was assumed it would be extended at the same rate indicated in last year's amendment, which is the current rate.

Mr. Vazquez expressed he had no problem with issuing another RFP, but his primary concern was that the Board still had the other two mandates to fund. He inquired if the RFP requests the firms responding to the RFP to provide a proposal to take the Plan through alternative investments and real estate and come up with managers for those mandates. Ms. Bhatia directed the Board to page nine of the RFP where there were

questions concerning alternative and real estate investments, but clarified this RFP was not asking for a proposal specific to alternative or real estate investments. Mr. Vazquez inquired if those investments will be incorporated in the fee proposal submitted by the firms. Ms. Bhatia responded the fee is supposed to be incorporated. Mr. Vazquez stated they need to make sure that the firms understand this and the wording should make it clear that the selected firm will take the Department through the process of getting real estate and alternative investment funded as part of their fee proposal. Ms. Bhatia noted this is reflected in the advertisement. Ms. Rubalcava inquired if the Board would like staff to add the language to the RFP and bring the RFP back to them at the August Board meeting or stick to the schedule. Mr. Vazquez suggested sticking to the schedule.

Ms. Rubalcava inquired if the Board was selecting the Option A or B schedule. President Romero indicated he favored Option A. Ms. Calvache commented the sooner the better and an extra meeting could be added. Mr. Moore commented he would be in attendance for the regular Board meeting but would not be able to attend PCA's Alternative Investment Class held on August 4<sup>th</sup>. He then expressed his concern that he does not feel the Board has really sat down and thought about what the role of the consultant should be for the next several years. Mr. Moore urged that inclusive language be used in several parts of the RFP where tasks might be performed to make sure the Plan is covered with respect to the Board's ability to request the consultant to perform those tasks. He expressed he would like the opportunity to meet again after the Board has had a chance to look at the schedule options and RFP a little more carefully and has had time to think more on the role they want the consultant to play. Mr. Vazquez stated he would be fine with delaying taking action in order to take more time to look things over if PCA agrees to extend their contract. He also suggested a follow up to the training sessions for real estate and alternative investments. Mr. Vazquez requested that those Board members interested in modifying the RFP with staff on an interim basis should develop a product and bring it to the next Board meeting. Attorney Wilkinson expressed his concern of this violating the Brown Act. Ms. Rubalcava stated when the Board members meet in August with their recommendations it will allow for a discussion at that time and then the RFP could come back to the Board in September for approval. However, the request for PCA's extension would have to be for more than three months.

Mr. Vazquez suggested designating one or two Board members to work with the Retirement staff in coming up with something for consideration at the next Board meeting. Attorney Wilkinson stated there would not be a problem with this. President Romero designated Mr. Moore and Ms. Calvache.

#### 21. Consideration of Contract Agreement Extending Bank of New York's Contract (HT)

President Romero introduced item 21, stating the existing contract with the Bank of New York (BNY) would expire on August 31, 2004, and BNY has expressed a willingness to extend their present contract. He stated the resolution and amendment to agreement No. 119 extends the contract for a period of three months.

Mr. Moore moved approval of resolution 05-12. Seconded by Commissioner McCallum and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

22. Discussion and Possible Action on Recommendations from PCA Concerning Future Transitions

President Romero introduced item 22 as a memo from PCA regarding a discussion pending transition activity. Ms. Rubalcava stated, based on her discussion with Mr. Rue, the outstanding contracts, and the preparation for the transitions, staff has requested that PCA put together a memo on their recommendation and advice on how all upcoming transitions should be handled. President Romero indicated he would like to review the memo a little bit more in detail. He inquired if there were any transitions in August. Ms. Rubalcava responded that staff hopes to be finished with T. Rowe Price and Fidelity soon. President Romero noted that it was discussed that T. Rowe Price would be given cash. Ms. Rubalcava responded staff was coming back to the Board because of the core fixed income. She stated the item that would need action taken would be Fidelity because President Romero was correct in that T. Rowe Price would be given cash. President Romero inquired with regards to the international mandate, was there enough cash to fund them. Ms. Bhatia indicated Mr. Rue was recommending that the international mandate be funded through the remnant portfolio. President Romero stated his question was is there enough cash to fund Fidelity. Ms. Bhatia responded there was not enough cash to fund Fidelity in it's entirety. She stated based on this initial funding schedule approved by the Board and the updated funding schedule included in the Board package, there was approximately \$150 million available in cash. In addition, some portion had been placed in the passive domestic equity account, which the Board had intended be used for the funding of the international mandate. She further stated Mr. Rue, however, was recommending differently in the memo being discussed.

Ms. Calvache inquired if a transition manager was going to be needed. Ms. Bhatia responded Mr. Rue recommended a transition manager on page 22.2 of the agenda packet.

Ms. Bernstein approached the podium.

President Romero recognized Ms. Bernstein.

Ms. Bernstein referred to page 2 of PCA's transition memo with the breakdown of the eight outstanding managers that have already been selected by the Board but still needs funding. She stated PCA recommends that Earnest Partners, BNY, Fidelity, and Boston Company be funded out of the remnant Boston Company portfolio. Ms. Bernstein informed the Board, in terms of transition manager use for those four mandates, PCA is recommending that on the international developed managers (Fidelity and Boston Company), the Board select a transition manager just for the sale side to transition the assets from Boston remnant to cash and then have Fidelity and

Boston build their own portfolios. She stated it was a one sided use of a transition manager and is extremely appropriate for these particular managers. Ms. Bernstein clarified, as President Romero mentioned, there is still cash in the portfolio and PCA is recommending it be used for the two high yield managers, one of which is Wells Capital. She stated she did not feel transition managers were necessary for those firms that are being funded out of the passive equity accounts because they are highly liquid and they also feel the high yield managers themselves should be building the portfolios.

President Romero requested a pre-trade analysis on costs and the pros and cons of going into each asset class. He also requested a report from BNY.

Ms. Rubalcava informed the Board that staff would continue to move forward in getting the contracts and insurance complete and not fund until PCA comes back with President Romero's request. President Romero suggested PCA work with BNY so the Board can actually see the value of everything. Ms. Bernstein inquired if the Board would like PCA to get a pre-trade analysis from a couple of the Plan's bench of transition managers or just from BNY and secondly from the manager themselves, which would be the comparison. President Romero inquired if there would be any concern for the Board to have too many transition managers know what assets we may be buying into and out of. Ms. Bernstein responded typically PCA would recommend going out to bid to see what comes back. President Romero stated he wanted to see what the difference is from a transition manager as opposed to giving 50% cash. He stated once the Board can review those numbers then it can decide whether or not to go with BNY.

Mr. Moore expressed his concern of the extent the numbers could be manipulated to make the firm who is putting them out look good and the Board needs the comfort that the estimates it is receiving are realistic. He said he was comfortable adding the others if PCA feels it could be done in a reasonable timeframe, but given what President Romero is requesting, is this slowing down the process or is it being done in parallel with the process. Ms. Bernstein responded the more bids they get the more pre-trade analysis and the more analysis PCA has to do to really compare, which they would be happy to do. She added the more bids there are the longer the extensions will be and that much longer for staff to be able to fund the managers.

Mr. Vazquez expressed with regards to the international mandate, which is \$270 million each to Boston and Fidelity, the Board should be in a position by the end of the month to sign off on a contract with Fidelity and be funded. He also noted, with regards to the international mandate, PCA was recommending the Board engage a transition manager to take the Boston remnant portfolio and liquidate it to cash and fund these two investment managers with cash because they have as much expertise as anyone else in going after the securities that they are going to use. Therefore, he would like to be in a position at the next Board meeting to follow through with being able to fund Boston and Fidelity. President Romero inquired if PCA could submit a report by the next meeting. Ms. Bernstein responded in the affirmative if the suggestion was to get a pre-trade analysis just for the international portion. Ms. Bernstein returned to the audience.

Ms. Rubalcava outlined for clarification, that staff would continue to work on the contract

and insurance. However, if staff has completed the Fidelity contract they will wait until the Board selects the transition manager then work on that contract and start the process of funding. Mr. Vazquez commented the contract should be done. Ms. Rubalcava clarified there were two contracts, one contract for the mandate, which staff is already close to finishing. She stated, in terms of Fidelity, staff is just waiting for the next item for the Board to approve the guidelines. Ms. Rubalcava explained the insurance was complete and the contract just needs Attorney Wilkinson and President Romero's signature. She stated staff would not do anything until the third week of August when the Board decides on the transition manager and which option they want; then staff will work with the contract for the transition.

Mr. Silver of Merrill Lynch approached the podium.

President Romero recognized Mr. Silver .

Mr. Silver stated Merrill's transition side of the firm is one of the bench candidates for DWP and he indicated there would be no cost to do a pre-trade analysis and the turnaround time is relatively fast once they receive the information. He stated he feels all of the transition managers would concur that by having a view of the holdings, it does not disadvantage the board in the market place as long as they are not indicating to the market when those trades will take place and this would not happen until after a transition approach was selected. He stated the Board did go through a due diligence process to select three different bench candidates all of which approach the market a little bit differently so they would encourage and support the opportunity to put forth a pre-trade analysis for the Board to do a fair comparison. He commented the Board is entering into a number of trades that potentially could be the more costly trades that take place in the portfolio although they are in the more liquid asset classes. Mr. Silver returned to the audience.

23. Staff and PCA Report on Fidelity's Guidelines to Supersede WPERP's Approved Guidelines and Policies for the International Mandate – Possible Action by the Board.

Ms. Rubalcava indicated item 23 was a point of information for the Board to be aware of. She informed the Board that Fidelity (commingled account) has a set of guidelines that vary from the Plan's guidelines. She stated Mr. John Charley (PCA) reviewed the guidelines and an email with his comments is included in the agenda packet.

Mr. Moore inquired if there was any feel for the extent to which Fidelity can get involved in private placement.

Ms. Bernstein approached the podium.

President Romero recognized Ms. Bernstein.

Ms. Bernstein referred to page 23.4 of the agenda packet. She stated the historical record is that Fidelity has not ever used private placement. Ms. Bernstein expressed that PCA's confidence level is that DWP would not be extending significantly beyond

their own guidelines that would be a cause for concern. She stated PCA definitely recommends the Board go with a commingled vehicle.

Mr. Vazquez moved approval of resolution 05-13. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

24. Consideration of Contract Agreement Extending Simpson and Simpson's Contract.

President Romero introduced item 24 stating the existing contract of Simpson and Simpson expires June 30, 2004. Ms. Bhatia explained the extension would be for three years and the current contract does cover this year's audit ending June 30, 2004. She stated staff is way ahead and is extending the contract well before next year to make sure there is a contract in place in case there are audits needed, considering the new environment. President Romero inquired how long Simpson and Simpson had been with the Plan. Ms. Bhatia responded for a very long time. President Romero expressed he was supportive in keeping the firm on for another two years, but suggested after that contract expires it may be a good time to issue an RFP to see what else is out there.

Mr. Moore stated normally an audit committee gets fairly involved in the relationship with the auditor in making recommendations to the Board in order for them to make their decision. He stated there was already an audit underway with the yearend just having closed and the committee should be establishing that relationship with them now. He expressed he would be more comfortable seeking to extend the contract for a year and then letting the audit committee work with it and make recommendations before the Board at a future date. President Romero agreed with Mr. Moore. Ms. Bhatia inquired how long should the Simpson and Simpson's contract be extended. President Romero responded one year as Mr. Moore suggested. Ms. Bhatia stated, for clarification, the current audit concerns the annual required external audit that is required of retirement plans and then the firm develops a report that is distributed to the Board members.

Commissioner McCallum inquired how long Simpson and Simpson had been the auditors. Ms. Bhatia responded she was not sure but possibly 10 years. Mr. Moore pointed out that the agreement in the Board agenda packet stated the firm had been the Department's auditor since 1978. Commissioner McCallum commented that there had been a discussion yesterday about auditors and time period restrictions, so there may be some requirements for the Board to change auditors.

Mr. Vazquez suggested a meeting be set up between Simpson and Simpson and the Audit Committee. Ms. Bhatia informed the Board the audit would begin in August.

Ms. Calvache moved approval of resolution 05-14 with the noted amendment of extending Simpson and Simpson's contract for one year. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

25. Discussion and Selection of Finalists for Custodian Bank.

Ms. Bernstein approached the podium.

President Romero recognized Ms. Bernstein.

Ms. Bernstein noted the Board requested PCA to put out a Request for Information (RFI) for the custodial bank. She stated in conjunction with the Retirement staff, PCA issued an RFI to five of the national leading banks including the current custodian, BNY. Ms. Bernstein listed the four additional banks as Mellon, State Street, J P Morgan and Northern Trust and indicated she had received all of the responses back in early June. She stated what PCA suggests today, based on their review, is taking the five banks and narrowing them down to a short list of three candidates. Ms. Bernstein explained PCA would then go forward and do additional work and comparisons of the three finalist candidates and come back to the Board again once they have done on sites with each finalist as well as if the finalists made any bid changes on the fees they are offering. She stated this should be done by the next Regular Board meeting.

Mr. Moore indicated he had a chance to review the report and it was excellent in that it has a lot of analysis and reasons for the analysis. He expressed he was comfortable with PCA's recommendation.

President Romero expressed his concern that if the Board narrows it down to three candidates he would favor Mellon, State Street, and Bank of New York. He further expressed he did not feel the Board should consider Northern Trust because with the Plan's passive strategy the firm did not act in good faith with respect to the insurance requirements they agreed to. He added, to this day, they have not submitted the waiver of subrogation. President Romero stated he did not feel this was a good way of doing business and the Board needs to send a message that if a firm does not follow through with what was agreed upon, then it will not be doing business with the Plan. Mr. Vazquez expressed he was fine with the three companies President Romero listed. Mr. Moore stated he was fine with the three firms and also inquired if there was a change with respect to Northern Trust. Mr. Neaman responded in the negative.

Mr. Moore inquired if there was a way the securities lending estimates could be structured so that the ability of bidding firms to manipulate and massage their numbers to their advantage could be minimized.

Ms. Bernstein approached the podium.

President Romero recognized Ms. Bernstein.

Ms. Bernstein responded these are just estimates and there will always be a range because there is no way for the bidder to foresee what the market will be like. She

stated the Board's job is to try and filter out what their view of the firm's capabilities are versus what the market is going to be. She informed the Board that in PCA's attempt to get comparable bids they requested each bank to bid on identical DWP draft guidelines and to submit a second bid based on their own bank guidelines. She explained the purpose of this was to eliminate one deviation. Ms. Bernstein indicated PCA also provided each firm with the asset allocation targets that DWP's Plan has as well as breakdowns for each asset class, the number of managers, and how many PCA expects would be commingled funds versus managed active separate accounts. She pointed out an appendix was included in the agenda packet to give the Board some kind of detail on where the differences are coming from. She indicated in the next stage PCA will certainly continue to try and get details on what they feel are valid estimates that the Board can compare to industry norms. Ms. Bernstein then referred to page 25.7 (Figure 3) of the agenda packet, wherein all the elements of the different bids were broken down. She emphasized it was very important for the Board to pay attention to the actual split, which is how much of the percentage of securities lending income the bank will keep for themselves versus resubmitting it to the Plan. She then elaborated on the elements of Figure 3. Ms. Bernstein returned to the audience.

Mr. Moore moved that Bank of New York, Mellon and State Street be selected as finalists for the selection of a custodian bank. Seconded by Commissioner McCallum and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, McCallum and Calvache

Nays: None

Mr. Vazquez inquired if interviews would be scheduled. Ms. Bernstein responded it was up to the Board if they want to meet the individual banks. She stated PCA definitely recommends that PCA, along with staff, do onsite with each of the finalists, continue to work with them on their bids, and come back to the Board with a report. Ms. Bernstein explained this was slightly different than interviewing an investment manager because there are so many pieces of custodial banking services; therefore she is not sure how much the Board will get out of a 20 minute presentation, but it is at the Board's discretion. President Romero commented, since this will be a long-term relationship, he would feel more comfortable with interviewing the candidates after the onsites and review of the reports.

Mr. Moore requested that after the subsequent investigations, PCA come back to the Board and explain what they feel the candidates can offer in the way of monitoring, reporting of performance, etc., that would be in addition to the quarterly reports submitted by the investment managers and PCA. Ms. Bernstein informed the Board that the additional services were included in the fee estimates.

Ms. Rubalcava noted for the Regular Board meeting scheduled for August 18, 2004, PCA and staff will come back with their report and inquired if the Board would like interviews of the custodial banks scheduled for the September meeting. President Romero responded it would depend on how long the onsite is going to take. Mr. Vazquez inquired how long the agreement with BNY was extended for. Ms. Rubalcava responded the extension is for three months.

## 26. Discussion and Possible Action on New Insurance-Tiered Approach for Future Investment Managers

Mr. Avery Neaman approached the Board table.

President Romero recognized Mr. Neaman and thanked him for the outstanding job he has done regarding the insurance requirements.

Mr. Neaman reviewed the five goals that were developed at the outset of the process. Mr. Moore and Mr. Vazquez requested Mr. Neaman submit what his findings were with respect to the input and information sharing amongst similar governmental pension plans of greater or approximately similar size as DWP's Plan in writing. Mr. Neaman indicated that Ms. Bernstein gave him a list of five Plans with similar asset size, which included: CALPERS, the state of Oregon, and two of the other City Plans.

Ms. Rubalcava referred to a chart on page 26.4 of the Board agenda packet reflecting the nine current adopted mandates, the target percentage, size of the mandate, total score, and what the insurance requirements would be under that format. Mr. Vazquez inquired if the chart was a summary of where the Board would look in the future for insurance requirements for various mandates based on the given scores. Mr. Neaman responded in the affirmative.

President Romero inquired if the Board wanted to see Mr. Neaman's report before taking action. Ms. Rubalcava clarified Mr. Neaman was just presenting to the Board a recommendation and it was up to the Board whether to take action. She added she requested the City Attorney to be prepared to answer any of the Board's questions in terms of implementation of current and future contracts in practical terms. Mr. Vazquez requested the item be agendaized for the next Board meeting, including what Mr. Neaman submits as to how this compares with the guidelines of other Plan's. He pointed out that the real estate and alternative investment mandates had not been funded yet and they require the high insurance requirements. Mr. Neaman clarified that those two mandates may not require the highest insurance requirements because they are not being funded at high levels, due to the fact that they are high risk. Mr. Vazquez noted that according to the chart they were the highest. Ms. Rubalcava commented that those two mandates were lumped as one investment manager, but if the Board chooses two managers for each and breaks down the amount of money, the risk would be lower. Mr. Vazquez expressed he understood, but due to the mandate risk it would still require \$40 million of professional liability regardless of the given asset size.

Mr. Moore commented there were a variety of investments for each category which will allow for a very conservative or aggressive real estate portfolio. He added there will be different risks associated with each one which is not taken into account. He inquired what was the basis for the numbers. Mr. Neaman responded the numbers were from PCA and Plan staff. Mr. Moore inquired whether information PCA and Plan staff gave Mr. Neaman was based upon historical measured risk level for each of the categories or was it "eyeballing" based on general feel. Ms. Bernstein responded PCA did not provide Mr. Neaman with any standard deviations for each asset class. She stated in

regards to the two funding areas of alternative and real estate, the insurance requirement is way outside of the norm regardless of the size of manager. She informed the Board that with 20 points their limit would be \$20 million in liability insurance and she recommended the Board proceed in two stages to look at the insurance requirements for all of DWP's funds. She stated PCA would be presenting educational seminars to the Board in private equity and real estate over the next couple of months and would be addressing issues for each of those separate asset classes. Attorney Wilkinson advised the Board that the City Attorney recommends that any policy change can only have affect on RFPs that have not already gone out or are going to be reissued.

Ms. Rubalcava reminded the Board that one of the reasons the insurance is being revisited is because it was felt that many of the small boutique firms were not able to compete. She stated, in her experience, the large firms have come through with the \$50 million professional liability. Mr. Moore stated it would ultimately impact the Department's cost.

Mr. Robert Harkins of the Boston Company approached the podium.

President Romero recognized Mr. Harkins.

Mr. Harkins pointed out the reason insurance is bought is to ensure if someone creates damage for the Department there is comfort that DWP will be able to recoup. He stated one of the factors that should be considered is the credit quality of the counterpart one is doing business with. Mr. Harkins reported Boston Company and Mellon have been in business for 150 years and have credit ratings that range from A+ to AA- and in some cases are better or as good as the insurance companies they do business with. He added the firm has almost \$3 trillion that they safekeep for other partners. He stated the risk profile they present is a lot different than that of a small firm. Mr. Harkins suggested when the Board is making their evaluation, they should take into account what the culture of the firm is that they are dealing with, which is a greater factor than the underlying asset class that you are in.

Mr. Vazquez stated in determining the ability to do business with people like Wholesale Power Marketers, Natural Gas, and SWAP counterparties, the Department allows them alternatives to providing a letter of credit which would be similar to insurance for backing up their obligations to the Department. He stated the Department allows for a parent guarantee, if the firm has a parent company with a certain rating. Mr. Vazquez suggested the Board consider something with regards to the credit rating of the counterparty they are dealing with in terms of mixing it in with the need for insurance requirements.

Mr. Moore requested PCA submit to the Board what they feel is the appropriate differentiation of the various mandates in terms of risk. He then referred to page 26.2 to a box labeled, "Insurance Requirements for Relative Total Scores" stating the Board has heard from several firms in the past that feel some of the requirements are designed for other industries or activities as opposed to the roles they are playing. He then requested something that spoke to that a little better. Mr. Neaman clarified that

those requirements (worker's compensation, general liability, auto liability) were removed completely. Mr. Moore inquired what "AI/LPS" stood for. Mr. Neaman responded the abbreviation stood for additional insurance on their crime fidelity policy or loss payable status. Mr. Neaman left the meeting.

#### 27. Retirement Plan Manager's Comments.

- a) DWP Plan Newsletter for Retirees (July 1, 2004 Edition).
- b) Los Angeles City Ethics Commission Newsletter
- c) Update on Employee-Member Commission Newsletter
- d) General Items:

#### **COLA Increase**

Ms. Rubalcava informed the Board and staff that the Retirement Office has received a few phone calls from retirees requesting their gratitude be expressed to the Board and staff for the COLA increase.

#### **Retirement Office Management Analyst Position**

Ms. Rubalcava reported, in terms of the management analyst position, Mr. Conney Williams was selected and would be attending next month's Board meeting to give the Board an update of where things stand with the monthly retirement seminars and the quarterly newsletter. President Romero inquired what will be Mr. William's duties. Ms. Rubalcava responded that will be discussed at next month's meeting.

#### **Election of Retirement Board Member**

Ms. Rubalcava noted at the last meeting the Board gave her permission to start the election process for the vacant Board position. She stated a letter was sent to the City Clerks Office and Mr. Harrington and herself met with the City Clerk and his staff regarding the process of the election. Ms. Rubalcava explained the City Clerk's office takes approximately two weeks to review the guidelines and policies that were used in DWP's last election that was approved. She stated there were some revisions to be made because of things that were added to their process; then they will come back and ask staff for comments. She stated once it has been completed, staff's goal is to go to the DWP Board Commission in the third week of August if not the first week of September for them to approve the guidelines. Ms. Rubalcava referred to a calendar for the 2003 election on page 27c.10 of the agenda packet and stated once the Board approves the guidelines, there is a list of things that have to be done 49 days from the date of the election. President Romero inquired if the basic rules and guidelines were going to staff. Ms. Rubalcava indicated those guidelines were included in last months Board report and a resolution was attached. President Romero requested the Board have a chance to review the amended guidelines.

#### **Half-Time Benefits**

Ms. Rubalcava reported IBEW and Employee Relations have been working on half-time benefits and requested the Retirement Office staff to participate in their meetings. She added they were close to wrapping things up and just need to go to Council in August for an approval. Ms. Rubalcava stated the goal is to implement the half-time benefits November 1, 2004.

28. Future agenda items.

Mr. Vazquez requested an update on the status of the TCW sale that the Board referred for legal determination be an item placed on the next Board agenda. Ms. Rubalcava indicated she had already emailed Attorney Wilkinson a request regarding this issue and it would be on the August 18<sup>th</sup> Board agenda.

The meeting was adjourned at 12:45 p.m.

---

JAVIER ROMERO  
President

---

ADRIANA RUBALCAVA  
Secretary

---

IRENE COLON  
Recording Secretary