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

MEETING – October 20, 2004

Present:

Javier Romero	President
Lilly Calvache	Vice President
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member
Gerard McCallum II	Commissioner
Henry Martinez	Acting General Manager

Absent:

Vacant	Board Member

Others Present:

Robert K. Rozanski	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	PCA (Pension Consulting Alliance)
Mike Wilkinson	Deputy City Attorney

The meeting was called to order at 9:10 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Rozanski indicated there was quorum of the Board.

CONSENT

Mr. Rozanski reported Items 1 and 2 were submitted for consent approval as follows:

1. **Approval of Board Minutes:**
    a) **July 7, 2004 (Special Board Meeting)**
    b) **July 21, 2004 (Regular Board Meeting)**
    c) **August 18, 2004 (Regular Board Meeting)**

2. **Termination from Monthly Rolls as of October 2004:**
   Retirement Resolution for October 2004
   Termination from the September 2004 Family Death Benefit Roll:
   Jahari King – attained 18 years of age
   Termination from the October 2004 Family Death Benefit Roll:
   Meghan Kelley – Attained 18 years of age
   Termination from the October 2004 Survivorship Roll as a Result of their Death:
   Aurelia Garcia and Janet Brice
   Termination from the September 2004 Permanent Disability Roll:
   Dexter Carr – Deceased

Ms. Calvache moved to approve Items 1 and 2 as recommended by staff. Seconded by Mr. McCallum and carried unanimously after the following vote:

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

PUBLIC COMMENTS

President Romero acknowledged Mr. Keith Kuhn, Chairman and CEO of BNY Western Trust Company (BNY).

Mr. Kuhn approached the podium.

Mr. Kuhn referred to Item 8a.1 of the Retirement Board meeting agenda. He stated that BNY has been servicing the Board as Custodian to the Department's pension plan. He requested the Board reconsider their decision at the previous Board meeting, appointing a new Custodian and Securities Lending agent. Mr. Kuhn expressed BNY's disappointment and stated the firm believes the Board will reduce the Plan's revenues by approximately $1.3 million dollars a year, which in over 5 years will be $6.5 million dollars; which are numbers derived from estimates compiled by the Board's Consultant Pensions Consulting Alliance, Inc. (PCA) used in the Request for Proposal (RFP) and in the response. He added BNY believes the advantage was obscured by PCA's analysis, which focused on estimates tied to each of the bidder's recommended guidelines, rather than the draft guidelines provided. Mr. Kuhn relayed two points to the Board: 1) BNY believes it can deliver $2.7 million dollars in annual securities lending revenue to the Plan without deviating from the draft guidelines provided by PCA which is $1.3 million dollars more than the estimate of the institution that was selected, and 2) in the last month, 2004 Global Securities Survey ranked BNY's Securities Lending capabilities as No. 1 amongst all its competitors and ranked BNY as one of the largest and most successful securities lenders in the world. He stressed that the 2004 Global Securities Survey gave BNY top rankings in reporting, compliance, and earnings performance. He proposed the Board test out BNY for three months, giving them amended guidelines, to see what BNY can produce in those three months. Mr. Kuhn indicated, even if BNY met only the benchmark of its competitors, it would produce an additional $100,000 a month to the Plan. He emphasized if BNY meets their estimates, it would be an additional $200,000 a month or $600,000 in the three month trial. He continued proposing if the three month trial goes well, BNY will ask the Board to reconsider, if not, the Board will have won and the Plan is at an advantage, benefiting from the test and profiting the additional $100,000 a month to the Plan. He stressed the fact that BNY has serviced the Board for a more than 12 years and proposed the Board reconsider their decision from the last Board meeting and put BNY to the test for three months from which the Board will benefit.

Mr. Kuhn thanked the Board members and retired to the audience.

President Romero thanked Mr. Kuhn for his public comments.

RECEIVED AND FILED

3. **Report of Payment Authorizations as of September 2004.**
4. **Investment Summary as of August 31, 2004**
5. **Short Term Investments as of September 30, 2004**
6. **Market Value of the Retirement, Death and Disability Funds as of August 31, 2004**
7. **Notice of Deaths for September 2004**
8. **Scanning of Beneficiary Forms for Disaster Recovery**

8a.1 BNY Letter Dated September 22, 2004, Regarding Master Custody and Securities Lending Search and Related Response from PCA

President Romero reported Items 3 through 8a.1 were submitted as having been received and filed. Ms. Calvache moved the above Items 3 through 8a.1 be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

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

9. **Authorization for Two New Deduction Codes to Permit Retirees to Pay Premiums by Payroll Deduction for Spousal and Dependent Insurance Sponsored by the Employees' Association (Board Resolution 05-38)**

Mr. Rozanski introduced Item 9, Board Resolution 05-38, as authorizing the Acting Retirement Plan Manager, subject to determination whether or not the Retirement Payroll System can accommodate such change, to implement two new payroll deduction codes that will enable retirees to deduct not only the cost of insurance premiums to ensure retirees' lives, but also the cost of insurance premiums for spousal and dependent coverage.

President Romero asked the Board members if there was any discussion for Item 9. Mr. McCallum II moved for adoption of Resolution 05-38. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

10. **Authorization to Provide Information About Retirees Enrolled in the Mutual Benefit Plan to the Water and Power Employees' Association (Board Resolution 05-39)**

President Romero introduced Item 10, Board Resolution 05-39, as authorizing the Acting Retirement Plan Manager to provide information to the Water and Power Employees' Association information about retirees enrolled in the Mutual Benefit Plan. Mr. Rozanski informed the Board the Employees' Association currently has the information on hard copy; however, they do not have it on electronic format so they are requesting Plan staff to provide the information to them in electronic format to enable them to conduct their actuarial study, which has been done in the past.

President Romero asked Mr. Moore how the Department's retirees feel about information shared between different departments. Mr. Moore replied it was initially a concern but the Employees' Association already has the data, so there should not be an issue. Mr. Martinez inquired if the letter from the Mayor regarding protection of personal information, such as social security numbers of employees, pertained to this situation. Mr. Rozanski explained it did not relate to this situation because the Employees' Association already has the information on hard copy; therefore, Employees' Association is requesting the Retirement Plan to provide them with information they already have in electronic format so they can facilitate the actuarial study that is required. Ms. Calvache asked how often the information would be shared with the Employees' Association. Mr. Rozanski replied he was not certain how many times a year the actuarial is conducted; whether it is conducted annually or bi-annually. He asked Ms. Mindy Sherwood of the Employees' Association, for her input.

President Romero acknowledged Ms. Sherwood, Office Supervisor of the Water and Power Employees' Association.

Ms. Mindy Sherwood approached the podium.

Ms. Sherwood replied the actuarial report is conducted every four years. She clarified that the information the Employees' Association is requesting does not include the social security numbers of the employees, only the employee number, date of birth, and the amount of assessments of each employee. Mr. Rozanski relayed the response stating the actuarial study conducted by the Employees' Association is every four years; therefore, the Retirement Plan will transmit the data every four years. Mr. McCallum II moved for adoption of Resolution 05-39. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

11. Transmittal of Proposed Plan Amendments to Implement Half-Time Agreement Between the Department and IBEW to the Board of Water and Power Commissioners for Prior Approval

President Romero introduced Item 11 stating the Board Resolution authorizes transmittal of proposed plan amendments to implement half-time agreement between the Department and IBEW to the Board of Water and Power Commissioners for prior approval. Mr. Rozanski indicated the City Council recently, in the last couple of weeks, approved the agreement between the Department and IBEW; therefore, the next step is to submit the proposed plan amendments to accommodate the agreement to the Board of Commissioners. He stated after the Board of Commissioners approves the plan amendments, it would come before the Retirement Board for approval. Ms. Calvache motioned for adoption of Item 11. Seconded by Mr. Moore and carried unanimously after the following vote:

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

12. Discussion and Possible Action on Readership Numbers for the Hits on

the Los Angeles Department of Water and Power Retirement Plan Website

President Romero introduced Item 12 as "discussion and possible action on readership numbers for the hits on the Los Angeles Department of Water and Power Retirement Plan Website". Mr. Rozanski indicated at the August 18, 2004 meeting, Plan staff was requested to provide a report with respect to the readership of minutes on other retirement plan websites. He continued to state Plan staff has information from the Los Angeles City Employees' Retirement System (LACERS), Fire and Police Pensions, Los Angeles County Employees' Retirement Association (LACERA), and California Public Employees' Retirement System (CalPERS).

No action was taken.

13. Follow-up Discussion and Possible Action regarding Charles Zinger's Request for a Change of Payee

President Romero introduced Item 13 as "follow-up discussion and possible action regarding Mr. Charles Zinger's request for a change of payee". Mr. Moore indicated he spoke with Mr. Zinger, prior to the meeting, and Mr. Zinger informed him that given the City Attorney's opinion, that this is "meet-and-confer" item, he would like to pursue this through his labor union; therefore, he will not show up today.

No action was taken.

14. Resolution to have the High Yield Portfolios Funded Directly by the Liquidation of Securities by the Passive Equity Managers and from Cash and to Allow the High Yield Managers to Build their own Portfolios (Board Resolution 05-40)

President Romero introduced Item 14, Board Resolution 05-40, as authorizing the Acting Retirement Plan Manager to have the High Yield portfolios funded directly by the Liquidation of Securities by the Passive Equity Managers and from cash, and to allow the High Yield Managers to build their own portfolios. Mr. Rozanski indicated the Board took action on its September 15, 2004 meeting and this Item 14, Board Resolution 05-40, is to formalize the action. Mr. Moore clarified this Board Resolution had a correction in the second paragraph where it previously read "$1.75%", but it was corrected as "1.75%". Mr. Rozanski confirmed Mr. Moore's statement. Mr. Moore moved for adoption of Resolution 05-40. Seconded by Mr. McCallum II and carried unanimously after the following vote:

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

15. Resolution Appointing Bank of New York Global Transition Management (BNY GTM) for the Transition to the Small Cap Mandates and Authorization to Fund the Mandates from the Liquidation of the Boston Remnant Portfolio and from the Passive Equity Account (Board Resolution 05-41)

President Romero introduced Item 15, Board Resolution 05-41, as appointing Bank of New York Global Transition Management (BNY GTM) for the transition to the Small cap

Mandates and authorizing the Acting Retirement Plan Manager to fund the mandates from the Liquidation of the Boston Remnant Portfolio and from the Passive Equity Account. Mr. Moore stated this Item was amended for the same reason, a typo where there should have been a percent sign instead of a dollar sign. Mr. Moore moved for adoption of Resolution 05-41. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

16. Investment Manager Status Report

President Romero introduced Item 16 as the "Investment Manager's Status Report". Mr. Rozanski stated the information provided is a revised report – correcting errors and updating status of some contracts. President Romero inquired about the status of these contracts. Mr. Rozanski replied Plan staff has authorization to proceed with transition to eight separate investment managers and a number of the contracts have been signed; however, there are some outstanding insurance issues with some investment managers. He continued stating Plan staff expects to have these accounts funded within 2-6 weeks.

Mr. Rozanski pointed out, with respect to the Emerging Markets, there may be a need to come back to the Board for modification purposes with T. Rowe Price. President Romero asked if it was a significant issue with T. Rowe Price. Mr. Rozanski stated it was not, but Plan staff will find out more after the meeting.

Mr. Ken Brooks, Vice President of T. Rowe Price Associates, Inc. approached the podium.

President Romero acknowledged Mr. Brooks.

Mr. Brooks stated this information was "news to him." He asked Mr. Rozanski if it was the Large Cap Value account. Ms. Bhatia replied it was the Emerging Markets account. Mr. Brooks stated it was his understanding T. Rowe Price had all the necessary documentation turned in and he will verify it.

President Romero thanked Mr. Brooks for his comments.

Mr. Brooks thanked the Board members and retired to the audience.

Mr. Vazquez inquired about the timeline for funding Fidelity Investments, Inc., on the International Equity account and whether the contract is completed. Ms. Bhatia responded the contract is complete, and Plan staff is working on the transition agreement. Mr. Vazquez asked if the transition agreement needed to come to the Board before Fidelity Investments is funded. Ms. Bhatia replied it did not need to come to the Board for approval.

No action taken.

17. Timeline for RFP for External Auditor's Contract

President Romero introduced Item 17 as "timeline for RFP for External Auditor's contract." Mr. Rozanski informed the Board there was no need for a motion since this was only informational material for the Board. Mr. Vazquez suggested the Audit Committee be involved in the progression of producing the External Auditor's contract. Mr. Moore concurred with Mr. Vazquez's suggestion and stated he was under the impression, during one of the previous meetings, they discussed to arranging a meeting with the auditors and the Audit Committee as they engage in the audit that is being conducted. He requested to have the Audit Committee meeting with the auditors arranged by the Audit Committee chairman, Mr. McCallum II. Mr. McCallum II informed the Board it was discussed yesterday to set up a meeting with the auditors. Mr. Rozanski indicated there is a required communication, with respect to that audit, for the auditors to come back to the Committee to report any control issues. He continued to state this will happen automatically, and Plan staff will be in the process of setting up the meeting requested by Mr. Moore.

No action was taken.

18. Resolution Amending the Plan's Statement of Investment Objectives, Goals, and Guidelines (Guidelines), to Add Bank Loans to the List of Permissible Investments in the Active High Yield Fixed Income Manager Guidelines (High Yield Guidelines) (Board Resolution 05-42)

President Romero introduced Item 18, Board Resolution 05-42, as authorizing the Acting Retirement Plan Manager to amend the Plan's Statement of Investment Objectives, Goals and Guidelines (Guidelines), to add bank loans to the list of permissible investments in the Active High Yield Fixed Income Manager Guidelines (High Yield Guidelines)." There was no discussion for Item 18. Mr. Moore moved for adoption of Resolution 05-42. Seconded by Mr. McCallum II and carried unanimously after the following vote:

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

19. Discussion of Timeline for Mellon Contract and Possible Action to Proceed with a Three Year Contract (Board Resolution 05-43)

President Romero introduced Item 19, Board Resolution 05-43, as authorizing the Acting Retirement Plan Manager to proceed with a three-year contract with Mellon. Mr. Rozanski stated at the Board's meeting of September 15, 2004, Plan staff was requested to look into the ramifications of going for a 5-year, as opposed to a 3-year contract. He added PCA recommended a 5-year contract. Mr. Rozanski informed the Board, according to Plan staff's research, it appears, there is some uncertainty as to how long it would take to have City Council look at the contract. He indicated it would take about seven months to get through Council, which would add three months to the timeline. He added Plan staff recommends proceeding with a 3-year contract that will allow Plan staff to quickly implement the tools necessary to monitor the compliance within the next 4 or 5 months, with the Board's approval of the guidelines, as well as the investment manager's performance. Mr. Rozanski pointed out there was a revision in one of the dates, which reads "October 20, 2004"; and a revised Board Resolution is provided for each Board member. Mr. Moore moved for adoption of Resolution 05-43. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

20. Discussion and Possible Action on Non-Compliance with Insurance Provisions by Passive Equity Managers (Board Resolution 05-44)

President Romero introduced Item 20, Board Resolution 05-44, as authorizing the Acting Retirement Plan Manager to proceed on non-compliance with insurance provisions by Passive Equity managers. Mr. Rozanski stated, at the Board's August 18, 2004 meeting, Plan staff was directed to send out letters to the Board's two Passive Equity managers, Northern Trust Investments (Northern Trust) and Merrill Lynch Investment Managers (Merrill Lynch), to determine their ability and willingness to comply with the insurance provisions that were set forth in the RFP. He added Plan staff has received, and included in each Board member's package, the responses from both firms. He pointed out Northern Trust indicated they will not be able to comply with the Board's insurance requirements as it relates to the Waiver of Subrogation. He continued Merrill Lynch has indicated they would be willing to provide a letter of credit to make up a $25 million dollar shortfall in professional liability insurance coverage provided there was a sole manager; in other words, if the Board were to consolidate the two accounts into one. Mr. Rozanski indicated, if the Board Resolution is adopted, the Board authorizes Plan staff to terminate the contract with Northern Trust and consolidate the two Passive Equity accounts into one account and accept a letter of credit from Wells Fargo Bank in the amount of $25 million dollars; also consistent with PCA's recommendation. Mr. Rozanski informed the Board there were several board resolutions with mistakes on dates that were revised and distributed to each Board member. Mr. Moore moved for adoption of Resolution 05-44. Seconded by Mr. McCallum II and carried unanimously after the following vote:

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

21. Discussion and Possible Action to Change the Policy of Excluding General Reserve and Reserve for Investment Gains and Losses from the Valuation of Assets (Board Resolution 05-45)

President Romero introduced Item 21, Board Resolution 05-45, as authorizing the Acting Retirement Plan Manager to change the policy of excluding General Reserve and Reserve for Investment Gains and Losses from the Valuation of Assets. Mr. Rozanski requested this Item be taken out of order since it relates directly with Item 22, the next item. He called Mr. Paul Angelo, representative of The Segal Company (Segal), the Board's Actuarial, to present the results of the actuarial study for 2003 for the Retirement Plan and Disability Fund.

Mr. Paul Angelo, Vice President of The Segal Company, approached the Board table.

President Romero acknowledged Mr. Angelo.

Mr. Angelo discussed the treatment of the General Reserve – how it impacts the level of assets that are counted as assets in valuation, and the amortization policy that determines the contribution rate to pay off the Plan's unfunded actuarial accrued liability (UAAL).

Mr. Angelo indicated under the Board's asset smoothing method, there are still calculations in the General Reserve, which are linked to this concept of realized gains being more trustworthy than unrealized gains. He added Segal Company no longer utilizes the concept of realized gains and unrealized gains, instead they look at the total return and compare it to the assumed rate which is the basis of the smoothing method – a change that was made last year. Mr. Angelo stated Segal Company believes it is fundamentally part of an old structure – using insurance company techniques. He explained that Segal Company takes the total assets, runs them through the smoothing method and backs out those reserves like a "rainy day fund". He added, consequently, this method resulted in backing out $130 million last year to $1.3 billion this year, which affected the actuarial value of assets and the continuation costs.

Mr. Angelo indicated a suggestion was made to take some of the $1.3 billion in the General Reserve and transfer it into the reserves that contain the employer contributions. He stated this has consequences in the statute. He added the question is whether the reserve should be counted as a valuation asset, which is not addressed in the statute, but has been a consistent practice. He explained it was this way when Segal Company was appointed by the Board as its actuary, therefore, Segal Company recommends that the Board make a change. He added Segal Company's only hesitation is that some countries do not count some of these reserves as valuation assets because under those countries' statutes, the Retirement Board, not the employer, has discretionary authority to take those reserve amounts and spend it on new benefits, such as ad hoc benefits, retiree COLAs, and health benefits. He reiterated the Board has discretionary authority to take this reserve and spend it on a benefit that is not counted in the valuation. Mr. Angelo explained if the money were taken off the table and spent on a new benefit, then the Board runs a risk of using it twice. On the other hand, if it is counted to fund the regular benefits, then the Board takes the money away and uses it on some discretionary benefit. He further explained these county systems' excess earnings reserve are not counted as valuation assets. Mr. Angelo posed the question to Legal Counsel if the Board, under its statute, has any authority at its discretion to create a new benefit – that is to spend the General Reserve on a new benefit. Mr. Angelo stated Legal Counsel looked at the statute and did not find any such authority of the Board. He then stated it is Segal Company's recommendation, since there is no policy reason, to exclude these assets from the valuation because the General Reserve can only be spent to fund the statutory benefits or the benefits as defined in the Board's written Plan. Mr. Angelo also indicated a question was raised about the 1% reference in the Plan. He explained there is a general agreement among Plan staff, Legal Counsel, and Segal Company that if the Board wanted to continue to count a portion of the General Reserve as a non-valuation asset, the Board has a 1% feature in this statute; so instead of counting the entire $1.3 billion, Segal Company will continue to exclude 1%, roughly $60 million dollars, this year.

President Romero inquired if the Board directed him [Mr. Angelo] to research this information. Mr. Angelo replied Segal Company initiated the research only because in the process of preparing their [Segal Company] report for the Board, something caused a dramatic effect in the numbers, which did not appear to be intended; therefore, Segal Company believes it is part of their job to investigate and bring it before the Board. Mr. Moore added the Board discussed this issue about the same time last year. President Romero stated he did not recall directing Segal Company to work with Plan staff to form a resolution. He requested tabling Item 21 so he could have more time to read over the material. Mr. Rozanski informed President Romero this Item is a time sensitive issue because Plan staff needs to complete the auditor's report, as well as the report to the City. President Romero asked if he could take 30 days to review the report from Segal Company. Mr. Moore inquired if the auditor's report impacted the timing of Plan staff's financial statements. Mr. Rozanski answered in the affirmative. Discussion ensued regarding the amount of time President Romero was allotted to review Segal's report without interfering with the Plan staff's reports.

Mr. Rozanski clarified the problem Segal Company presented and the decision the Board needed to make. He explained if Segal Company pursued the study and stayed with the past practice, the contributions of the Department would go up dramatically for no reason because there are sufficient assets in the Plan to cover liabilities. He further explained there is a small shortfall that is being accounted for but the increase in the funding rate over time using the smoothing method and the study itself, in terms of returns and so forth. Mr. Rozanski explained from an accounting standpoint, Plan staff continues to maintain the $1.3 billion dollars in the reserves, they are not changing anything there, though, that could be revisited in light of the fact that Plan staff now has the smoothing method, a doubling up of the intent of smoothing. He stated that Plan staff is reflecting the value of the assets available to satisfy the Plan requirements, and this is a way to accomplish that without modifying the Plan. He suggested that the Board might want to direct staff to look into whether or not even the 1% requirement makes sense in today's world, given the fact the Board has adopted the smoothing method, and that this is not intended to result in major shocks to the Department in terms of funding. He indicated Plan staff believes it is not appropriate to exclude the $1.3 billion, as it relates to the study. He added, however, Plan staff is maintaining since the Board is requiring the 1% for now; Plan staff will continue with excluding the 1% and out of abundance of caution.

Mr. Vazquez asked Mr. Angelo if he knew what the contribution would need to be if the Board excludes the $1.3 billion from the situation, per the report's contribution for 2004-2005, making the adjustment for the $1.3 billion. Mr. Angelo replied that Segal Company calculated it would be over 40%.

More discussion ensued regarding the best time to hold a Special Meeting, allotting President Romero time to review the reports from Segal Company and allowing Plan staff time to produce their financial statements. President Romero requested scheduling a Special Meeting in two weeks. Mr. Rozanski stated it was possible and he will find out the date Plan staff needs to transmit the information to the City, which he believes is the first week of November. He recommended the Actuary still present the report before the Board.

[Mr. Moore left at 10:55 a.m.]

22. Presentation and Adoption of Actuarial Reports
- Retirement Fund

- Disability Fund

President Romero introduced Item 22 is the Actuarial presentation and report of the Retirement Fund and Disability Fund.

[Mr. Angelo, Vice President of The Segal Company, the Board's Actuary, was previously acknowledged by President Romero; therefore, was already seated at the Board table.]

Mr. Angelo reported on the July 1, 2004 Actuarial Evaluation for the Retirement portion of the Water & Power Employees' Retirement Plan (WPERP) to the Board. Mr. Angelo reported the market value of assets earned a return of 11.22% for the July 1, 2003 to July 30, 2004 Plan year, and the actuarial value of assets earned a return of 5.52% for the 2003-2004 Plan year due to the recognition of prior investment losses which resulted in an actuarial loss of $149.5 million dollars if measured against the assumed rate of return of 8.00%. He indicated this increased the Plan's required contribution by 2.89% of compensation. He stated the salaries for continuing actives increased 8.6% from the rate in effect on March 31, 2003 to the rate in effect on March 31, 2004. He explained since this rate is larger than the assumed rate of 5.5%, the Plan experienced an actuarial loss from salary increases, which amounted to $57.3 million dollars for the current year; increasing the Plan's required contribution by 1.11% of compensation which is due to the negotiated benefit package that provided for some pay increases based on years of service. He informed the Board they have maintained the assumed rate of 5.5% salary increases until the next experience study.

Mr. Angelo reported the market value for July 1, 2003 to July 30, 2004 was 11.22% that is an excess of the 8% assumption; however, because the smoothing method deferred the losses in the bad years, and is now consistently recognizing those, the rate of return on the actuarial value is about 5.5% which is less than the 8%. Mr. Angelo explained if the Board looked at the Department's contribution rate, it has increased by 2.89%, solely because of this recognition of prior losses. He explained if Segal used raw market value, it would have gone up by 2.9% some years back, so this is a matter of reducing the volatility in the Department's contribution rate. He continued to indicate the salaries for the continuing active members increased by 8.6%, which is higher than the assumed rate of 5.5%, which increased the Plan's required contribution by 1.11% of compensation. Mr. Angelo explained this was partly based on years of service. Mr. Vazquez asked Mr. Angelo to clarify if the $57.3 million dollars amounts to 1.1% of the compensation. Mr. Angelo replied the $57.3 million dollars is the change in liability, which is amortized over 15 years and then one year's payment is the 1.1%. He clarified for Mr. Vazquez that $57.3 million is not 1.1% of the Plan's compensation, but the amortization amount in dollars translates into the 1.1%.

Mr. Angelo reported, under the Plan's funding policy, the required contribution for the 2004-05 Plan-year is 13.45% of pay, which is estimated to be $78.2 million. He added this includes amortization of the Plan's unfunded actuarial accrued liability (UAAL) over various fixed periods. He indicated, on page 22 of Section 3, the chart demonstrates how the amortization amount is calculated. He pointed out the Plan has an unfunded liability for the first time and the total is $170 million dollars. Mr. Angelo explained the $170 million dollars is traced back to these various sources where they are each amortized over their own period, calculating a total of the combined amortization payment of $12, 230.62.

Mr. Angelo explained the smoothing method. He reiterated the Plan is still deferring losses from the bad years, which means the actuarial value is still higher than the market value. He reported last year the actuarial value was $700 million dollars more than the market value because the market was relatively low. He emphasized the market, has now moved up, but the Plan still has $350 million dollars of past bad news that has not yet been included in the actuarial value of assets which means that Segal can predict, If starting July 1, 2004, the market value earns exactly 8% with no future market gains and losses, then over the next four years and $350 million dollars in deferred losses will make its way into the Plan's cost structure and will show up as rates with returns lower than eight. He explained if Segal bases it on market value, it would be $170 million dollars plus $350 million the Plan's contribution rate will go up by 6.9% which means the Department can know that over the next four years, even if it hits the 8% right on the nose, contribution rates will creep up by 6.9% because the smoothing method mechanics are so predictable. Mr. Vazquez asked what if the Plan exceeds its earnings expectation and the $350 million goes down. Mr. Angelo concurred and explained that every dollar that the Plan beats the 8% by, offsets a $1 out of the $351 million.

Mr. Angelo indicated the balance this year in the General Reserve and the Reserve for Investment Gains and Losses increased from $137 million to $103 billion dollars. He explained the change took place because of significant turnover in the Plan's portfolio, whereas in prior years, the two reserves were excluded from the valuation assets.

Mr. Angelo informed the Board that Segal Company prepared the report excluding all but $61 million, which is approximately 1% of the Board's assets, to demonstrate the difference of the role of the 1% of the Reserve in the statute, as written.

Mr. Angelo indicated this is the first time, since 1997, that the Board has an unfunded actuarial accrued liability (UAAL) exceeding the actuarial value of assets, which results in an unfunded actuarial accrued liability (UAAL) of $170.4 million. He informed the Board of its funding policy, which requires paying off the $170.4 million, not as a single layer, but by source.

Mr. Angelo reported the current net amortization charge is $12,230,620. He indicated it would take the Board 40 years to pay off the UAAL. He explained, in practice, what would happen is that the net amortization charge will increase substantially in 11 years when the year 2000 surplus is fully amortized. He explained to the Board it sounds as though the Board is not making its 15-year payment however, the real point is that the amortization payments in the future years are not level because the Board has a "good news" credit layer that is 11 years long, but there is "bad news" layer that is longer than 11 years. He emphasized that the $12, 230,620 dollars does not represent level funding over the life of the Plan. Mr. Angelo stated that the Board needed to decide if it wants to have a contribution scheme that is in effect artificially low for 11 years and then jumps up to a higher level thereafter. He continued to state that in order to obtain a more level cost pattern, Segal Company is recommending a "fresh start" approach where the current bases are once again combined into a single base and amortized over 15 years, consistent with the current policy. He explained, with this approach the Board would have a net amortization charge of $18,432,327.00, instead of having a net amortization charge of $12 million dollars. He added the difference is that the $18 million dollars is very predictable and paid in 15 years time only, an approach known as "frontloaded" contribution. He explained this means for 15 years the Board pays the normal costs, plus $18 million, after which the Board pays only the normal costs. He explained the Board could take its current policy and basically "restart" it. He stated if this is adopted, next year the Board will have two layers, and will have 14 years left on the $170 million. Mr. Angelo stated whatever happens between now and the next few years, new gains and losses and new Plan amendments, will be funded over 15 years.

President Romero inquired where LACERS was in the process. Mr. Angelo replied they are still in the decision process. He informed the Board the LACERS issue is that they actually use different amortization periods for different sources, instead of using 15 for everything. Mr. Vazquez asked for clarification, if Mr. Angelo was making a recommendation that the Board combine the current year's amount with the prior year and start fresh, or the Board could just continued being layered. He also asked if the Board has this flexibility. Mr. Angelo replied in the affirmative.

President Romero asked Ms. Bhatia if the $1.3 billion was cash. Ms. Bhatia replied it represents the gains from selling most of the Plan's investments, reinvested into various portfolios, to fund the new allocation policy. Mr. Rozanski explained the mechanics of the calculations are such that if they are unrealized, where the Plan has a buy-and-hold strategy, even if the Plan could sell them tomorrow and realize them, they are excluded from that reserve. He added if all of a sudden they are realized and the Plan has moved to a different strategy, as the Plan is starting to sell out on these portfolios, that same calculation would now include that gain in the reserve. He stated this is where the perverse issue lies.

Mr. Angelo discussed the Governmental Accounting Standards Board Statement No. 25 (GASB 25) feature. He stated if the Board stayed with its current policy and used the $12 million as the amortization amount, the contribution would not meet the requirements of being an Annual Required Contribution (ARC). He added, for this reason, Segal Company has determined the ARC using a 40-year amortization payment of $13,230,711. He informed the Board that if they would like their contribution policy to meet the GASB definition of an ARC, then the $12 million will not meet that standard because it pushes the Board over 40 years. Mr. Angelo reiterated if the Board adopted the "restart" approach, they would probably restate the ARC so that it matches up.

Mr. Angelo discussed the chart on page 12, which compares this valuation's recommended contribution with the prior valuation. He indicated the net normal cost was close to last year. He pointed out that last year, the Board had an unfunded liability which was an over funding - $86 million dollars, now unfunded liability of $170 million. He also pointed out 7a was the Board's current policy of $12 million and 7b is the recommended single amortization base over 15 years. He added the total required contribution last yearwas 8.45%, whereas this year it is 13.45%.

Mr. Vazquez clarified if the $84 million will remain stable, not just the $12 million. Mr. Angelo stated the $84 million is a combination of normal cost and accrued liability payments. Mr. Vazquez asked if he expects the Board's normal costs to stay. Mr. Angelo replied in the affirmative and stated what will happen is the $84 million will be for 15 years and then it will drop to about $63 million, which is the normal cost portion.

Mr. Angelo reported the July 1, 2004 Actuarial Evaluation for the WPERP Temporary and Permanent Disability Fund. He apologized to the Board and informed them that the report was prepared using the 8% assumption, which should have been 5% assumption; however, he indicated there was not much difference in the numbers. He reported the total reserve for the disability benefits has decreased from $47.6 million on June 30, 2002 to $45.7 million on June 30, 2004. Mr. Angelo indicated the recommended Department contribution rate for the Temporary Disability Fund has increased from $0.68 per $100 of compensation to $0.74 per $100 of compensation, which is due to the increase in the annual rate of incurred claims per $100 of covered payroll during the past two years. He reported the recommended Department contribution rate for the Permanent Total Disability Fund remains at $0 per $100 of compensation.

Mr. Angelo thanked the Board members and retired to the audience.

President Romero thanked Mr. Angelo for his report to the Board.

23. PCA's Recommendation Regarding Boston Company's Outstanding Contract Issues

President Romero introduced Item 23 as PCA's recommendation regarding Boston Company's outstanding contract issues.

Ms. Sarah Bernstein from Pensions Consulting Alliance, Inc. (PCA) approached the table.

President Romero acknowledged Ms. Bernstein.

Ms. Bernstein stated it has been brought to PCA's attention there are a couple of minor outstanding issues to resolve in order to complete the funding of The Boston Company contracts. She informed the Board they have written a background memo reviewing the documents from The Boston Company. Ms. Bernstein indicated the first issue is The Boston Company's policy for voting proxies is under the Mellon Corporation. She explained, if the Board is in a commingled fund, The Boston Company votes all the proxies for all their clients equally and the same, which means The Boston Company cannot make exceptions to vote the Board's particular proxy voting rules and guidelines. She stated the question is how to resolve that since the Board has elected to go into the commingled fund for The Boston Company's mandate. Ms. Bhatia pointed out this is the international separate account. Ms. Bernstein asked that the Board can disregard her statements about the commingled fund, but it still applies for the Mellon Corporation. She informed the Board they have two options: 1) either the Board could vote the proxies themselves; or 2) have The Boston Company vote under their guidelines. President Romero inquired if Plan staff has reviewed The Boston Company's proxy guidelines and if Plan staff has any reservations towards it. Ms. Bhatia informed the Board that Plan staff has looked over The Boston Company's guidelines as compared to the Plan and right now Plan staff has every investment manager voting on proxies for the Plan. Ms. Bhatia stated Plan staff has provided its guidelines and also those provided by The Boston Company to PCA for their input. She stated it does not seem like there would be an issue if The Boston Company voted the proxies for the Board as they voted for their clients – there are no significant differences. President Romero asked for Plan staff's recommendation. Ms. Bhatia stated Plan staff went to PCA for recommendations because Plan staff determined that there were no significant differences, and they wanted to hear from PCA. PCA is recommending Plan staff allow The Boston Company to vote on proxies in accordance with their guidelines. President Romero requested for copies of all investment manager's proxy policies for informational purposes. Mr. Rozanski replied yes. Ms. Bhatia informed the Board there are no copies because it was never an issue, and investment managers have always been directed to vote Plan staff's proxies in accordance with the Plan's guidelines.

Mr. Rob Harkins, Vice President of The Boston Company, approached the podium.

President Romero acknowledged Mr. Harkins.

Mr. Harkins stated he went through the Board's proxy guidelines and those of Mellon and did a side-by-side comparison, and there really is no major differences, as Ms. Bhatia stated. He indicated the key areas are: 1) to recognize a proxy is an asset (like the shares themselves are assets), and 2) to vote solely in the interest of the Plan participants. Mr. Harkins indicated that PCA would be providing some updates for the Board on its own proxy policy. He informed the Board, its last update of the proxy policy was in 2000. He also pointed out the Board does not engage in appointing an independent fiduciary to do an independent analysis of the issues at hand. He also pointed out that the whole area of proxy voting is receiving an increased amount of regulatory attention. Mr. Harkins informed the Board of an incident that happened when Hewlett Packard and Compaq was going around the financial institutions drumming up support to vote with them. He added they implicitly started to hold hostage other businesses, whether they were existing or new. He stated there were several institutions taken to task by the SEC and required to pay fines. Mr. Harkins stated, just recently, there have been allegations against CALPERS that individual board member's agendas influenced the voting of proxies in Safeway. He stated that Mellon is adopting a policy allowing the Board to vote proxies itself; and Mellon is also fine with taking on that responsibility for the Board. However, it is going to do it in uniformity on every issue with The Boston Company, Mellon, Dreyfus, etc. Mr. Harkins added one of the things that The Boston Company has done to ensure they are discharging that fiduciary duty in an appropriate fashion is to hire a firm called Institutional Shareholders Services (ISS), which just do proxy analysis. He informed the Board that The Boston Company's internal proxy committee is guided by the ISS's findings. He added one thing that is specific to non-USA equity is that certain countries, like France, if investment managers go and vote a proxy, they are prohibited from selling shares in that corporation for a period of time afterwards. He stated The Boston Company needed to weigh the decision to vote against the ability to get out of a position if they want to or a restriction on that. He continued, therefore, it adds an extra dimension that is not present in the voting of domestic shares. He recommended the Board adopt the resolution that Plan staff has drawn up. President Romero asked if Plan staff has a copy of The Boston Company's proxy. Mr. Harkins responded he forwarded it to the Plan staff.

Ms. Bernstein informed the Board she compared the Board's existing policies and The Boston Company's policies and came to the same conclusion that, on critical issues they are identical; however, the Board is not currently staffed to vote on the proxies itself. PCA recommends allowing The Boston Company to vote the proxies on behalf of the Board.

Mr. Harkins stated if the Board had a special issue on any given proxy, The Boston Company could physically take that proxy from the process and bring it before the Board so the Board could vote that special proxy off, as long as the Board gave The Boston Company enough notice.

President Romero thanked Mr. Harkins.

Mr. Harkins returned to the audience.

Ms. Bernstein informed the Board of the second resolution for Item 23 which allows The Boston Company to adopt the MSCI EAFE + Canada Index as its benchmark. She stated that The Boston Company is requesting that they use the generic MSCI, not the value index, just the broader index. She explained PCA concurs with The Boston Company, stating the critical issue in the indexes, internationally, are not as robust as they are for the domestic equity managers; whereas, Boston Company manages this particular portfolio drawing from the broader group of international securities availability, and then manages on a value basis. President Romero inquired if Plan staff agreed with PCA's recommendation. Mr. Rozanski answered in the affirmative. Mr. Vazquez moved adoption of Resolution 05-46 and 05-47. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

24. PCA's Quarterly Performance Review as of June 2004

Ms. Bernstein reported, from the Executive Summary of the June 30, 2004 Quarter Report, the Board has about $5.8 billion in the Plan. She indicated there was a decrease of $312 million, quarter over quarter, and $109 million over the last year. She stated the Board was higher in domestic equity and above target in domestic equity as of June 2004, and significantly above cash, about 14%, as opposed to the 2% in the last meeting. Ms. Bernstein indicated the over-funding of the domestic equities helped contribute to the Board's overall policy return – the actual return outperforming the overall policy index with an overall higher rating in domestic equities and underrating in this particular period in fixed income. She added another important highlight is, during this period, the Board has funded a number of domestic equity managers. She reported as of June, the Board did not have any managers with more than a quarter's results; whereas, the Board will then have the two passive equity managers' annual results, as well as quarter results for September. She informed the Board the cash will drop significantly because the Board funded in July, during fourth quarter. She stated most of the managers should be up and running and completely funded.

President Romero thanked Ms. Bernstein for PCA's quarterly report.

Ms. Bernstein returned to the audience.

25. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (October 1, 2004, Edition).
b) Non-Issuance of 2003 Employees' Benefits Booklet

Mr. Rozanski explained to the Board that Plan staff decided not to issue the 2003 Employees' Benefits booklets because the information contained in it was now old information. He stated Plan staff has run into problems in obtaining information for the booklets, so Plan staff has decided to focus on 2004, with an effort to get it out by the end of this year. Mr. Rozanski indicated payment has been made to the vendor, and Plan staff negotiated to exclude a small amount as a result of the cancellation of the 2003 booklets. He explained the reason for the delay was resources were redeployed within the Retirement Office, as well as the ITS Department, to resolve the 1099R issue that came up last year, which is still continuing to be resolved. He added that Plan staff is hoping to resolve the issue by the end of November in the first printing of the 1099s.

c) Update on Employees' Election

Mr. Rozanski stated, the position filing date opened for the election for the vacancy on the Board, as of October 18. He stated there is a timeline in the Board package of the election schedule.

d) Board Room Sound System

Mr. Rozanski informed the Board that a new sound system has been installed in the Boardroom. He indicated,however, due to problems with this system, some of the information from the tapes in audible; therefore there are gaps in the minutes of the September 15 Board meeting.

e) DWP Plan Newsletter for Active Employees (Fourth Quarter)

Mr. Rozanski stated Plan staff has a copy of the newsletter for the active employees, which went out to employees last week.

f) General Items

Ms. Calvache inquired, regarding the problems with the RAP system, is there new information for the Board. Mr. Rozanski stated there have been a number of items he expected to be resolved early on in the year, especially the 1099s. He stated Plan staff has been active meeting each week with Cecilia Weldon and her team to develop a list of all the outstanding issues. He informed the Board there are a number of issues related to 1099s, involving corrections that Retirement staff have to make, that involve programmatic changes to ensure Plan staff only includes the 11 pay periods. He indicated Plan staff is on top of it, and is looking to resolve all the data related issues by the end of November. Mr. Rozanski stated all the other issues would be resolved once the 1099s are printed. He informed the Board there have been changes that need to be made for half-time benefits. He added there are a number of RAP 2 System identification function requirements. He assured the Board that Plan staff is moving along pretty quickly and that the ITS Department is working with Plan staff to put together a schedule and looking at the resources required to complete the support of the Retirement Plan Office.

President Romero thanked the Board and the meeting was adjourned at 11:54 a.m.

JAVIER ROMERO
President

ROBERT K. ROZANSKI
Acting Secretary

IRENE COLON
Recording Secretary