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

MEETING – November 17, 2004

Present:

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

Absent:

Gerard McCallum II	Commissioner
Vacant	Board Member

Others Present:

Robert K. Rozanski	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Paul Angelo	Segal Company
Neil Rue	PCA (Pension Consulting Alliance)
Sarah Bernstein	PCA (Pension Consulting Alliance)
Pete Echeverria	Deputy City Attorney

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

[Pledge of Allegiance]

Mr. Rozanski indicated there was quorum of the Board.

PUBLIC COMMENTS

Ms. Mary Abramson approached the podium.

President Romero recognized Ms. Abramson.

Ms. Abramson introduced herself and stated her husband, Mr. Kerry Distel, died at age 53 of a heart attack, one year short of his 25-year retirement. She stated she received a letter from the Employees' Retirement Plan denying her the survivor's optional death benefit allowance. She stated she was invited to express herself before the Retirement Board.

Ms. Abramson expressed that Mr. Distel worked the most dangerous and stressful job in the City, by climbing poles, working with electricity, and working in the trouble unit. She stated he faced the daily stress and fear of making the wrong move, which could kill him or others. Ms. Abramson indicated that in the past he had been burned, electrocuted and hospitalized. She stated, as a nurse, she knows that the electricity goes right through one's arteries and to the heart. Therefore, she felt he probably suffered from heart damage all of these years. She added Mr. Distel also suffered from hearing loss due to the explosion of the shift of the switches. Ms. Abramson indicated Mr. Distel received many safety awards and worked countless of extra hours at work and home, problem solving for safety. She stated, to this day, no one else has bid for Mr. Distel's job due to its high stress nature. She expressed that part of signing on for such a job is the retirement package, and to deny Mr. Distel of this is not right. She added Mr. Distel's retirement is his legacy to his kids and grandchildren in helping with their college education.

Ms. Abramson indicated she spoke with two supervisors who stated Mr. Distel had more than a year's worth of extra hours worked during his 24 years with the Department, and the time just needs to be calculated. She stated she did not want to have to hire an attorney to subpoena the records. Ms. Abramson concluded by stating she knows Mr. Distel would have lived longer than 53 years if it were not for the high stress of his job. She thanked the Board for their consideration and returned to the audience. Ms. Abramson's representative submitted a letter to the Board summarizing the information sent to the DWP Retirement Office.

Item 13 was taken out of order due to Mr. Angelo's (Segal Company) time constraints.

13. Consideration and Adoption of the Annual Actuarial Report for the Retirement Fund as of July 1, 2004, which includes a Change in the Treatment of General Reserves and Reserves for Investment Gains and Losses in the Determination of the Actuarial Value of Assets

President Romero expressed he wanted to utilize the public comments to somewhat give a historic state of events of where the Board was and where they currently stand. He reported that in July of 2000, the Retirement Board had three newly elected Board members on the Board. He stated those Board members attended the University of Pennsylvania, the Wharton School of Business, where they took a course studying Modern Portfolio Theory. They also attended the International Foundation for Employee Benefits where they went through significant training. In addition, they attended the Callan College program 1 & 2 in which they received certification. President Romero indicated while the Board members were at this training they found that the way the Department historically invests in the pension plan was totally different than what the pension world was doing. He indicated the employees were concerned if the Department was really doing the right thing with regards to investing. President Romero stated there was a unanimous decision among the Retirement Board to conduct an asset liability study that would determine if the Board was doing the right thing and where to make improvements. He noted PCA conducted the study, and the results indicated there could be improvement if the assets were diversified, through active management as opposed to passive management, which would lower the risk of the portfolio and increase the potential returns. President Romero indicated the process of going from 2 passive managers to 14 active managers has taken several years. He explained the process involves liquidating the existing portfolio and funding the 14 new money managers and requires due diligence, RFPs, and interviews. President Romero stated this past year the Board has done more transitions than in previous years, and the sale of the old portfolio to the new portfolio has generated a significant amount of gains to the sum of $1.3 billion. He stated the issue before this Board was for actuarial purposes, if this $1.3 billion should be considered as part of the actuarial report, and to see whether the Plan is fully funded or in compliance or not. President Romero stated this was not an issue of City Hall trying to rape this Plan as some people have read and perceive this to be. He clarified it was an issue of whether or not the Retirement Board is in compliance, doing the right thing, and do other pension plans of similar size have the same practice, whether reserves are included or not. President Romero expressed he had some discomfort when this issue first came before the Board and feels others have misinterpreted that discomfort in that the elected members are being attacked by managers, which is not the case. He stated the elected members had sought to find out what the City is doing and if their reserves were included as part of the assets, and if what the actuary is recommending is similar to what the City does and other pension plans of the same size. President Romero stated the Retirement Office staff has also indicated that this is how it is done. He stated, at that point, he was still not comfortable and came back before the Board just to make sure there was due diligence and they were doing the right thing for the beneficiaries of the Plan.

Mr. Angelo approached the Board table.

President Romero recognized Mr. Angelo.

Mr. Angelo stated the summary of the issue that is contained in the agenda packet under Resolution 05-53 captures both of the issues Segal presented last week, and what is described in the formal actuary report. He pointed out that the first issue discusses smoothing and is very closely connected to the points President Romero made, which is that Segal has a method for dealing with volatility in the market value. Mr. Angelo indicated that all public sector retirement systems acknowledge that the fluctuation in the market value can be so great that it could cause unnecessary fluctuation in the year-by-year contributions that are presented to the employers. He reported since the early 1990s, the Department’s fund had been using a smoothing method and then last year went through a specific review of it and brought it up to a cutting edge practice. Mr. Angelo pointed out that the key feature is that it focuses on a total return and does not separate realized gains from unrealized gains because this is not the focus of modern portfolio theory. However, because of the way the WPERP statute is written, it continues to contain a reserving process which causes no harm unless the reserving process reaches over and tries to affect the valuation process. He explained that, historically, the reserving process is what plans used to dampen the market value volatility. Mr. Angelo noted that in last year's presentation by Segal, they made the point that one would in effect be smoothing twice. He stated the reason the firm did not feel it urgent to address the issue was that the reserves did not change very much from year to year, and the non-valuation reserve of $130 million had been there for at least two years and was not crying for attention. However, since the Plan is now going through a process of rebalancing and redoing the asset allocation, a lot of trades are being made, causing the unrealized gains to be realized. Mr. Angelo pointed out, in whatever year the new asset allocation is implemented, there would be a big spike in the realized gains, and in whichever year that happens the reserves are going to jump up. He stated, under prior practice, it would involve a large segment of assets being taken off the table in terms of the funding of the Plan. Mr. Angelo emphasized that Segal mentioned last year this was an issue that would require attention, but did not really know at what point it would move up in terms of the Board's priority level. He explained the facts have accelerated the priority due to the trading activity in the last 12 months and expressed it was his job to talk about sound funding principles. Mr. Angelo raised the question if there was any actuarial justification for taking $1.3 billion and excluding it when determining the funded status of the Plan and the Department's contribution rate. He reported, based on his expertise, the different seminars and workshops the Board members have attended, and based on practice throughout the state and country, there is no actuarial justification for taking the $1.3 billion and excluding it from the valuation of assets. Mr. Angelo indicated Segal presented the Board with a firm recommendation that the Retirement Board address the issue this year. He stated there was a question of whether or not to include the entire reserve or whether to continue to exclude 1% of assets, as described in the resolution. Mr. Angelo emphasized that the initial discussions would not have reserved the 1% away from the valuation assets. He raised the question if there was anything in the action that in any way affects the solvency, security, or sound funding policy of the Retirement Plan. The answer was in the negative. Mr. Angelo stated the reason is that the $1.3 billion can only be used for the purpose of paying retirement benefits and is part of the assets that is included in determining the funding ratios and the contributions.

President Romero inquired if PCA concurred with the actuary's report. Ms. Bernstein responded that PCA is not an actuary, but they do concur with Segal's recommendation. Mr. Moore referred to a chart on page 14 of Segal's report which reflects everything the actuary does for the Plan. He expressed, as a retiree, the findings that an actuary makes are the most important findings that the Board can look at because the actuary is the referee that keeps the score and tells the Board whether or not they are adequately funded. Mr. Moore stated that the idea is to keep the level as close to 100% as possible, and the smoothing techniques for liability and assets the actuary spoke of is a means by which one keeps the relatively constant level of contribution so that the Department does not get hit by spikes in contributions. He emphasized the importance of the role of the actuary and the fact Segal finds no actuarial justification for sticking with the adequate reserve approach the Retirement Board has used. Mr. Moore then asked Mr. Angelo if this was correct. Mr. Angelo responded in the affirmative. Mr. Moore stated that Segal and the City Attorney has found that this is in keeping with sound actuarial practices and solid funding, therefore he feels very comfortable with what is being proposed.

Mr. Vazquez moved approval of Resolution 05-53. Seconded by Mr. Moore and carried unanimously after the following vote:

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

President Romero inquired, for the record, was the motion to maintain the 1%. Mr. Angelo responded in the affirmative.

President Romero inquired of Counsel, since public comments were closed and there were two new public comment cards, would those individuals be able to speak before the Board. Attorney Echeverria inquired if the public comments were regarding any of the items on the agenda. President Romero stated the comments were regarding agenda item 13. Atty. Echeverria responded if the comments were regarding the item that is currently before the Board it would be appropriate.

Ms. Marie Lemelle (DWP Public Relations Specialists) approached the podium.

President Romero recognized Ms. Lemelle.

Ms. Lemelle introduced herself as a writer of the Contact Newsletter and also in charge of DWP employee communications. She stated, with regards to the article that appeared in the LA Weekly, there were questions that many of the DWP employees needed clarification on. Ms. Lemelle further stated she wanted to confirm some of the comments that were made in the article in order to clarify the accuracy of the reporter. She inquired, since there were so many concerns, was there any particular areas the Board could clarify on. President Romero responded, since this was not an agenda item, the Board could not discuss it. However, Ms. Lemelle could address her concerns and questions with the Retirement Office staff. Mr. Moore commented that there were so many inaccuracies in the LA Weekly article it would take another hour to go through and point out all of the errors. Therefore, it would be better to consult with Mr.

Rozanski after the Board meeting. President Romero added, that in the future, if there are ever any concerns to address them with the Retirement Office staff or himself.

Attorney Echeverria clarified, for general information, the public comments are for the public to comment to the Board on items that are being considered or that are within their jurisdiction. He stated questions of the type Ms. Lemelle presented are appropriately handled by being referred to the Retirement Office Staff to be directly handled or reported back to the Board. Ms. Lemelle left the meeting.

Ms. Maryanne Pierson (DWP Public Relations Specialist) approached the podium.

President Romero recognized Ms. Pierson.

Ms. Pierson expressed, as she does not purport to have the expertise as those on the Retirement Board, she, as a general member of the pension fund, requests for the sake of the Board that item 13 be tabled until more of the general employee membership has a better understanding. She added perception is the truth in the eye of an uninformed person. Ms. Pierson stated that unfortunately the article came out just before the Board voted and is the only information many of the pension fund members have; therefore, they are not well informed. She recommended, in order to eliminate any type of problems that may result after the Board makes their decision, the Board should give the general membership more time and information about the decision. Ms. Pierson indicated that being in the communications field she has heard from many members who are very unhappy with the issue even though they do not understand what is happening. She reiterated her feelings that the item should be tabled so that more people could be informed because she believes there is going to be follow up to the Board's decision, and it may not be as favorable or supportive as the Board would like. Ms. Pierson left the meeting.

Mr. Angelo pointed out to the Board that item 14 was regarding the revised actuarial report of the Disability Fund and inquired if the Board needed him for this item. President Romero suggested taking item 14 next while Mr. Angelo was present.

Item 14 was taken out of order.

14. Consideration and Adoption of the Revised Actuarial Report of the Disability Fund as of July 1, 2004, Revision Dated October 25, 2004, Presented on November 3, 2004

President Romero inquired if any Board discussion was necessary for item 14. Mr. Moore referred to page "i" of the Segal booklet, wherein it states, "The Board may wish to increase the target reserve level of the temporary disability benefit to reflect a greater level of distribution variance from this fund." He then inquired if Segal was making any recommendations to the Board as to how to adjust the reserve level. Mr. Angelo responded that this would involve a special project in which the Board would officially instruct the actuary to submit a budget and review other factors and insurance companies. He explained the WPERP's system was old with a lot of things linked into statutes; therefore, neither staff nor the actuary has the latitude to change them. He stated the Board could request Segal to present a proposal to do an official study that would most likely necessitate the City Attorney's Office as well. Mr. Angelo indicated Segal would come back with a fundamental review of the Plan. He stated another issue that was adopted last year is why are there two separate Plans (Disability Plan and the Retirement Plan). Mr. Angelo informed the Board that most plans today pay the disability benefits out of the retirement plan, which is another project. He added this issue was currently on the City Attorney's work list.

Mr. Moore inquired of President Romero if the adjusting of the reserve level was something the Board could ask of the Retirement Office staff to review along with the actuary and come back to the Board with a proposal. President Romero responded it could be a future agenda item. Mr. Angelo clarified that the first step would be for the Board to request a proposal from Segal, and inquired if the Board would like to do that. President Romero responded this needed to be an agenda item to discuss the request of the proposal. Attorney Echeverria clarified that the request was for staff to meet with the actuary and make a recommendation as to how to proceed. Mr. Moore agreed with Attorney Echeverria.

Mr. Moore referred to page 8 of Segal's report where the annual rate of incurred claims and expenses per $100 of covered payroll is reflected, and noted that it had more than doubled since the year 2000 and has remained at that higher level. He then inquired if there was an explanation for this increase. Mr. Angelo responded that Segal just receives the numbers as data and checks with staff to ensure the numbers are correct. Mr. Angelo clarified that the material impact of the report submitted by Segal is that it would change the temporary disability benefit fund contribution from $ 0.68 to $0.74 per $100.00 of compensation.

Mr. Vazquez moved the approval of the actuarial report for the disability fund as of July 1, 2004, revised October 25, 2004. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Mr. Angelo left the meeting.

CONSENT

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

1. **Termination from Monthly Rolls as of November 2004:**
   Retirement Resolution for November 2004
   Resolution Terminating Gladys May Blain and Louise E. Berry from the November Survivorship Roll as a Result of their Deaths

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

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

RECEIVED AND FILED

2. **Report of Payment Authorizations as of October 2004**
3. **Notice of Deaths for October 2004**
4. **Market Value of the Retirement, Death & Disability Funds as of September 30, 2004**
5. **PCA's Recommendation on Liquidation of Passive Equity**
6. **PCA's Review and Recommendation of Merrill Lynch Passive Equity Account fees**

President Romero stated he had a question regarding item 6. He expressed, with respect to the securities lending program, he feels Merrill Lynch is offering a better split of 70/30. He inquired if staff had attempted to improve upon this by requiring a split of 80/20. Ms. Bhatia explained that this is a passive index fund; therefore, the split is dictated by the rules of the fund and is the same for all participants and cannot be negotiated.

Ms. Calvache moved to approve items 2 through 6 to be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

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

7. **Adoption of Plan Amendments to Implement Half-Time Agreement Between the Department and IBEW (DWP Commission Approved These Amendments at its November 2, 2004, Meeting)**

President Romero introduced item 7 as a resolution (05-50) to adopt the Plan amendments to implement the half-time agreement between the Department and IBEW. Mr. Rozanski commented that this resolution would complete the process to implement the Plan changes.

Ms. Calvache moved to approve Resolution 05-50. Seconded by Mr. Moore and carried unanimously after the following vote:

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

8. Consideration and Possible Adoption of Resolution to Establish Rules for Determining When Monthly Allowances Will Be Paid

President Romero introduced item 8 and inquired if any Board discussion was necessary.

Mr. Vazquez moved to approve Resolution 05-51. Seconded by Mr. Moore and carried unanimously after the following vote:

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

9. Authorization to Mail Letters to Selected Retirees Regarding Delayed Direct Deposits and Authorizations to Reimburse Retirees for Related Costs Incurred

President Romero expressed he had a concern regarding Resolution 05-52, and recommended amending it to indicate that the reimbursement from ITS coming to the Plan should not come out of the Plan assets. Mr. Rozanski stated the resolution could be changed to state reimbursement should be sought from the Department to the extent any fees or costs have to be paid in connection with the delayed direct deposits out of the Plan.

Mr. Vazquez pointed out that the resolution number should be corrected from 50-52 to 05-52.

Mr. Vazquez moved approval of resolution 05-52 as amended. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

10. Comparative Summary of Insurance Requirements for Real Estate Investments and Alternative Investments

President Romero introduced item 10 and inquired if the representatives of PCA had anything to add.

Ms. Sarah Bernstein of Pension Consulting Alliance (PCA), and Mr. Avery Neaman (DWP Risk Management) approached the Board table.

President Romero recognized Mr. Rue, Ms. Bernstein, and Mr. Neaman.

Ms. Bernstein pointed out that the memo included in the agenda packet from Mr. Rozanski to the Retirement Board dated November 4, 2004, was following up on prior Board discussions regarding the changing of the insurance requirements. She stated this particular update is targeting the review of insurance requirements of other large pension funds for private equity and alternative areas of investments. Ms. Bernstein stated these are areas the Board has not yet invested in, but has targeted to allocate assets to in the near future. She indicated Mr. Neaman had followed up with each of the pension funds and suggested he summarize his discussions with those funds and she would make brief comments from PCA's point of view as the consultants.

President Romero expressed he would like to hear from Mr. Neaman and Ms. Bernstein. He inquired, from a risk management perspective and in consideration of what other pension plans are doing with respect to the risk tolerances liability, what is it Mr. Neaman feels the WPERP would need with various assets. Mr. Neaman responded the same seven large pension funds were contacted when reviewing the standard grade investments. He explained this particular initiative was to contact them again and see how they viewed "higher risk investments" such as real estate related emerging markets private equity. Mr. Neaman reported the result was six different factors and the primary one is that there are no differences in their policies, procedures, and in their processes relating to standard risk investment versus the higher risk investments that DWP is working with. He added that some of the other points were technical in nature, and when working with the International Emerging Markets there are more operational risks as opposed to errors and omissions. Mr. Neaman stated with these markets there is also more crime/fidelity risk and the Department has been concentrating primarily on professional liability or errors and omissions. He stated the pension funds he contacted conveyed that with International Emerging Markets, there is more risk in the monies being lost in custodian banks.

President Romero inquired if Mr. Neaman had a recommendation for the Board. Mr. Neaman responded that what was discussed with the Retirement Office staff was to consult on a case by case basis as each RFP is being developed as to what would be appropriate. He added there was a very large range of risk in each. Mr. Vazquez indicated he requested this issue be addressed because the Board went through an RFP process for all of the mandates excluding alternative investments and real estate. He stated he did not know whether the Board should impose the same insurance requirements in an RFP soliciting responses for those types of investments. Mr. Vazquez suggested the Board get comfortable with those types of investments and then decide how to get into them with the help of the consultant. He stated, with regards to real estate, the Board needs to determine the insurance requirements based on what they decide to get into. Mr. Neaman indicated, in his discussions with Mr. Rozanski, it was decided to set a minimum and maximum for each type of mandate, memorialize it, request Board approval, and then delegate authority to Plan staff to work within that range for each individual mandate. Mr. Rozanski commented it had already been memorialized in a resolution for the Board's consideration, but somehow was omitted. He explained the plan was to have a minimum/maximum for each of these given the potential unique nature of each type of investment, consult with risk management, and determine what the appropriate levels of insurance for each of the items should be. He added, as part of the RFP process they would also go out with unique requirements as appropriate for each specific investment. President Romero inquired if the RFP would come before the Board prior to going out. Mr. Rozanski responded in the affirmative. President Romero recommended that staff involve PCA and get their opinions.

Mr. Moore noted, in item 1, there were no differences between the insurance requirements for higher risk or lower risk mandates. He inquired if it was asked why there are no differences. He stated he was also concerned that CALPERS limits were so low considering their size. Mr. Neaman stated in response to both of Mr. Moore's questions, CALPERS does not conduct formal risk assessments and does not have formal policies, procedures, and standards. He added this is where the Departments sets themselves apart. Mr. Neaman expressed he was personally proud that the Department was doing things differently than the other pension plans and it was the right thing to do. He indicated that what the other pension plans do is not based on any logic, studies, principles or policies. Ms. Bernstein commented, when one is investing assets, they are making allocation decisions both on differences in risk parameters and returns. She stated when one puts in a huge amount of insurance they are trying to take out the risk by having an insurance policy behind a "high potential return" investment. She explained that most of the pension plans think about it in the context that the returns they are looking for are diversified across the whole portfolio. She stated it was PCA's opinion that it is useful to have a policy. She emphasized, as previously addressed to the Retirement Board, the existing policy is out of line with industry standards and has been responsible for some of the delays in getting the managers funded.

Ms. Bernstein responded, with regards to the comments on alternative equity and private equity markets, she feels it is a reasonable suggestion from staff and Mr.

Neaman to set parameters that are within market standards. Mr. Moore expressed, given the fact the Board recognizes the need to make changes to the scheme in place, he thinks it would be better to look at it as a whole one more time and then let staff deal with it on a discretionary basis and future iterations for specific manager selection. Mr. Vazquez noted that the insurance parameters were established up front for all of the RFPs issued, and the Board decided, in order to be fair, those requirements would be maintained through the initial course of hiring managers. He expressed a new standard should be developed for each of the portfolios addressing what the insurance requirements are going to be should the Board decide to replace the manager in order to obtain the best managers available within the industry standards for insurances. He then requested staff submit a recommendation to the Board over the next several months as to what insurance are needed for each of the mandates as the Board looks to replace managers in the future. Mr. Neaman left the Board table.

11. Discussion of Securities Lending Guidelines and Possible Board Action

Ms. Bernstein noted that during the custodial search the Board selected a custodian for the securities lending, and during that process PCA reviewed the guidelines. She pointed out that item 11 outlines revised guidelines PCA is recommending for Board adoption and those guidelines started with the ones that went out in the custodial RFP. Ms. Bernstein indicated PCA worked both with Mellon and staff in coming up with what they think are reasonable securities lending guidelines for the Plan. She stated the first recommendation is for adoption of the guidelines; second, the use of a commingled vehicle through Mellon for securities lending rather than through a separate account; and third, to develop internal WPERP securities lending monitoring and reporting guidelines and procedures.

Mr. Vazquez requested staff's view of the recommendations. Mr. Rozanski responded staff has worked very closely with PCA regarding this issue. In addition, since DWP (outside of the Retirement Plan) also has a securities lending program with respect to fixed income type securities, staff took a look at that aspect of it as well and provided comments and feedback. Therefore, staff concurs with PCA's recommendations.

Mr. Moore moved approval of PCA's recommendations for WPERP's Securities Lending Program. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

12. Discussion of Proxy Voting Guidelines and Possible Board Action

Ms. Bernstein noted that the memo dated November 12, 2004, included in the agenda packet is designed as a background to frame issues for Board discussion in reviewing their existing proxy voting guidelines, policies and procedures and to decide how they might want to either let them remain or update them. She stated the memo provides some background on the current market. The existing guidelines are attached, and a few local funds were included for informational purposes. Ms. Bernstein indicated the beginning of the memo goes through the summary from less active to more active. She pointed out that there were other options of considering outsourcing for services to get more information, and proxy voting assistance from firms that specialize in this for institutional investors such as pension funds. Ms. Bernstein informed the Board this was open for discussion or to review for a future agenda item. She suggested if the Board wanted to discuss other options more thoroughly or get more active, they might want to hold a separate educational workshop. President Romero expressed he would like educational classes to be provided in order to find out what all of the issues are and requested staff pursue this at the appropriate time.

Item 13 was taken out of order and is discussed on page 2.

Item 14 was taken out of order and is discussed on page 6.

15. PCA's Performance Report as of September 30, 2004

Mr. Rue began summarizing PCA's Performance Report as of September 30, 2004. He began reviewing the capital market highlight, stating the last quarter was quite volatile with a lot of negative numbers. However, the bonds produced returns in excess of 3%, which is very strong for the bond market. Mr. Rue indicated a lot of practitioners were caught off guard, the yield curve declined, and interest rates on the long end of the curve fell. He reported there were negative returns for equity markets and very strong returns for fixed income types of instruments. Mr. Rue noted, on the equity side, the best performing asset class during the quarter was the International Markets. He stated the Developed Markets (measured by EAFE) was down only 0.2% versus its domestic equity counterparts, and emerging markets was up 8%.

Mr. Rue began reviewing the executive summary pointing out that the Plan's portfolio added market value of approximately $200 million over the three months ending September 30, 2004, and approximately $300 million for the entire year. He added the portfolio, as of September 30th was close to $6 billion. Mr. Rue reported from the asset allocation there is now a significant equity exposure at almost 70%, most of which is in domestic equities. He stated, as of September 30^{th,} there is a significant overweight versus the long-term policy in domestic equities at 21% over. Mr. Rue further stated the portfolio is underweighted in international equities and is pretty close to the target weight for bonds, but is underweighted. He added there was a rebalance of a little more than $1 billion during the third quarter constituting significant moves in the portfolio.

Mr. Rue concluded by reviewing the quarterly performance, stating it was down a negative 4% versus the policy return for the quarter. He stated when looking at the policy return the private asset classes are not included, just the public asset classes when measuring performance, which is a 60/40%mix (60% stocks and 40% bonds. Mr. Rue reported the 60/40 mix was up approximately 70 basis points; therefore, it was evident the portfolio underperformed by a big margin during the quarter at 110 basis points. He broke this down stating WPERP's investment portfolio was down 40 basis points and the policy return was up 70 basis points, resulting in a difference of 110 basis points. Mr. Rue explained the reason for this is because the domestic equity portfolio was down pretty hard and the portfolio has an emphasis on those equities. He recommended the Board caveat his comments by what has happened subsequent to September 30th and the election. He added there was very strong equity performance so this is going to reverse itself in the fourth quarter. Mr. Rue stated the differences in asset allocation 78explains everything but 20 basis points of the difference and the other 20 basis points is the transaction activity that took place. He reported for the last year the portfolio was up 9.5% versus the policy benchmark of 11.7% resulting in an underperformance of 220 basis points. He added that180 basis points of this is due to the difference in asset allocations. Mr. Rue indicated currently, when looking at the asset allocation, there is only $140 million in cash, where it is usually $800 million. He reported on the international side equity it is up 20% - 25%.

Mr. Moore noted that PCA's executive summary states for the last quarter there was a $202 million increase in value over the quarter, but then in the next page it states for the latest quarter the total investment portfolio returned a –0.4%. He then inquired if this was the same issue he previously discussed regarding the ins and outs of the fund, including benefit payments, whereas the other is referring to the time adjusted performance of the invested funds. Mr. Rue responded in the affirmative.

16. PCA's Report on the Transition of Large Value Equity Assets from Merrill Lynch to T. Rowe Price

Mr. Rue presented a recap of the transition summary for the transition of assets from Merrill Lynch. He stated the Merrill team running the large value left the firm and went to Delaware; consequently, the Board decided to switch over to the finalist T. Rowe Price. Mr. Rue reported the transition went fairly well in the sense that it did not lose any assets, and gained additional assets once transitioned to T. Rowe Price due to market performance. He added it was a very volatile day when the transition took place. Mr. Rue reported the transition costs were in excess of what their pre-trade analysis said it would be, largely due to the volatility of the market that day. He stated outside of this, PCA feels the transition went very well.

17. Investment Manager Status Report

Mr. Rozanski reported the transition of the Large Value Equity assets to T. Rowe Price was complete as Mr. Rue mentioned. He stated under Active Small Cap, the Bank of New York and Earnest Partners were funded; under International Equity, Fidelity Management Trust was funded; and under Fixed income, Wells Capital was funded, all in the last 30-45 days.

Mr. Rozanski pointed out that under the contract status for Wells Capital (Fixed Income) the status report states "in process" for the contract and should state, "completed".

Mr. Rozanski reported T. Rowe Price (Emerging Markets) has indicated they cannot provide the risk management insurance requirements under a commingled product. He indicated staff was continuing to work with T. Rowe Price in evaluating alternatives. Mr. Rozanski stated, as mentioned earlier, there are questions whether the insurance requirements limits are too high. President Romero inquired if T. Rowe Price had ever agreed under a commingled status that they would comply with the insurance requirements. President Romero inquired, as part of their interview, did T. Rowe Price ever indicate they would comply with the Plan's insurance requirements whether it was a commingled or separate account. Ms. Bhatia responded that T. Rowe Price had agreed to the insurance requirements under a separate account structure. However, the Board approved a commingled account and, as a result, participants of the commingled account are required to comply with the indemnification provisions of the account. Mr. Rozanski commented that staff may have to come back before the Board regarding this issue.

Mr. Vazquez inquired about the insurance issues regarding the Boston Company because it was his understanding the firm was almost fully in compliance. Ms. Bhatia responded she did not have an update on the Boston Company, however, they would be among the next set of contracts staff would be reviewing. She indicated there might be an issue regarding the emerging markets contract for Boston Company.

Mr. Robert Harkins (Boston Company) approached the podium.

President Romero recognized Mr. Harkins.

Mr. Harkins reported that in the last letter his firm received from Mr. Neaman dated October 20th, Boston was fully in compliance with everything in the insurance standards with the exception of the fidelity bond. He indicated there was an agreement to make one slight change of adding a “Loss Payee Status”, which makes it a little bit more of a direct recovery in the event of a loss. Mr. Harkins added the form just needed to be submitted to the Board for approval. He expressed as far as the insurance for the emerging markets, that bridge has not been crossed yet and he did not know if there were any issues there or not.

Mr. Vazquez noted, with regards to the Boston Company, the investment manager status report states that the contracts are still in process. He then inquired what were the outstanding issues on the contracts. Mr. Rozanski responded the outstanding issues had more to do with prioritizing, given the staffing in the Retirement Office, and trying to get the contracts processed. He stated staff has completed 5 transitions in the last 45 days, which is significant. and is working as quickly as possible to complete the contracts. Mr. Moore inquired if staff had a sense of a timeframe for the remaining 4 contracts. Mr. Rozanski responded that staff expects to complete the remaining contracts sometime in early December, but it is contingent on whether or not the insurance issues are resolved to the extent staff has to come back to the Board in a Special Board meeting.

President Romero inquired if the international emerging market was outperforming. Mr. Rue responded that particular segment out of all of the investment markets has been the best performing. President Romero inquired if PCA would recommend making emerging markets a priority. Ms. Bernstein responded that there were two points of view. She stated staff is trying to get everything done by the end of the year, which would be fantastic. However, in terms of funding, the other consideration is how much time the transition takes in different categories. Ms. Bernstein pointed out there was one more high yield manager left and just the transition in getting those assets fully purchased by the manager is a 4 to 6 week process. Therefore, the timeframe is short enough, if in fact everything gets done by December 31st to fund all of them as quickly as possible. President Romero noted there were four money mangers that need to be funded and inquired if they would be funded by the end of December. Mr. Rozanski responded they would be funded by December provided the insurance requirements are not an issue, but if so, a Special Board meeting would be scheduled to resolve those issues. He stated staff has been working on all four contracts, but they are at different levels of work in process and are in fairly good shape. President Romero expressed he understands the Retirement Office is overworked, and inquired if there was any way to direct Mr. Neaman to transfer the documents needing signatures or approval by the Boston Company to at least alleviate that perspective so staff could set up the funding. Mr. Rozanski responded, that immediately following the Board meeting, staff would go through the four outstanding contracts and get an understanding of the specifics on where things stand on each in order to expedite things.

Mr. Vazquez stated, from what he has heard, with regards to the Boston Company, the international equity can be resolved with the Plan's current insurance requirements. He stated regarding emerging markets, it was his understanding that neither T. Rowe Price nor Boston Company would be able to comply with the insurance standards in the RFP. Mr. Rue clarified, with regards to T. Rowe Price, the firm may be able to meet the insurance requirements in a separate account format, but it will require more decisions on the part of the Board and more time to come to that conclusion. Ms. Bernstein commented that the Board has already decided to use commingled funds, therefore in that context, they need to agree to the firm's commingled fund vehicle requirements for both T. Rowe Price and Boston Company. Mr. Vazquez expressed the reason for his comment is that he would rather not delay it; and if necessary, a Special Board meeting should be set up to address the insurance requirements for those mandates. Mr. Rue commented, to the extent staff is constrained and needs to prioritize, he recommends making the Boston Company contract top priority. Mr. Rozanski informed the Board that the Boston Company was already next on the list of priorities.

18. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (November 1, 2004)

Mr. Rozanski reported the Board had already received a copy of the November 1, 2004 newsletter for DWP retirees. He mentioned a notification was included in the newsletter stating the amounts due in January will be paid on January 3rd since Saturday, January 1st is a holiday. He indicated staff was working closely with the banks to ensure the accounts are credited at the appropriate time for 1099 purposes.

b) Status of 1099s for Calendar Year 2004

Mr. Rozanski reported there were a lot of errors that needed to be corrected in various databases and staff has made significant progress and are on track to get 90+% of everything corrected as of the end of this week. He stated the reports would then be run for a preliminary 1099, wherein any other errors that are discovered can be resolved at that time.

Ms. Calvache noted that Mr. Conney Williams was no longer working with the1099Rs and inquired who was now overseeing it. Mr. Rozanski responded that several weeks ago Mr. Mark Rubin was hired and Mr. Williams was working closely with training him during this transition.

c) Status of Half-Time Implementation

Mr. Rozanski reported the scheduled half-time implementation date is November 29th and involves changes to three systems involving human resources, the payroll system, as well as the retirement systems. He stated it appears, at this point, the payroll system and Human Resources is on track in having everything ready by the end of this week. He indicated the only outlier right now is the Retirement Office, who has been working closely and meeting on a continuous basis with ITS and making every effort to meet the November 29th deadline. Mr. Rozanski stated as of yesterday's meeting, ITS redeployed resources to aid the Retirement Office in making their deadline.

d) Retirement Seminar Update

Mr. Rozanski reported a retirement seminar was being conducted today and the entire operation had been transferred over to the Retirement Office. He added staff was also in the process of purchasing equipment for seminars in the outlying areas. Ms. Calvache requested a copy of the retirement seminar agenda and a list of the speakers.

e) General Items

Mr. Rozanski informed the Board they had been provided with a public records act request, which is being handled through the Department's City Attorney's Office.

Ms. Calvache expressed that staffing in the Retirement Office has always been a big issue for her. She inquired if there were any positions and vacancies that still needed filling. Mr. Rozanski responded there were four vacant positions, although a couple of them may be frozen in the IT area. He indicated he had a request, as it relates to RAP II. Mr. Rozanski stated that ITS requested the Retirement Office transfer vacant positions to them. He mentioned to them, to the extent they had a project, the Retirement Office would much rather retain those positions until such time that the (RAP II) system is implemented, then consider if we wanted them to continue under our control or transfer them to ITS, therefore at least two positions need to be filled. He indicated there were two vacancies for an Assistant Retirement Plan Manager and staff has been working to get the examination process completed and have submitted everything 30 to 45 days ago. Mr. Rozanski stated he could prepare a list of the vacancies for the Board, along with his thoughts as to the best way to proceed in filling the vacancies. Ms. Calvache expressed that her concern is that staff is doing a lot of work, staffing issues have always been a big concern, and if there is anything the Retirement Board can do then they need to move forward on that.

Mr. Moore noted there have been a lot of e-mails regarding the article about the actuarial report and he wanted to encourage staff to work with public affairs in making sure the word gets out that explains simply, but adequately, the issues that were raised in the minds of the employees and retirees. Mr. Rozanski suggested putting something in the active employee's newsletter as well as into the Contact to ensure employees are well informed.

Mr. Vazquez requested staff review the letter submitted by Ms. Abramson with some recommendation as to what to do with her request. Mr. Rozanski responded that staff did respond to Ms. Abramson, and in accordance with the Plan's rules, Ms. Abramson does not meet any of the core criteria that has to be met in order for her to receive the survivorship. Therefore, it is not an issue that the Retirement Board can resolve, but has more to do whether or not there are additional years of service that could be credited to Mr. Distel. Mr. Rozanski clarified this was an issue that the Department of Water and Power has to review because the Plan is very clear. He added he has already communicated this with Mr. Martinez. Mr. Vazquez inquired if Mr. Rozanski communicated this to Ms. Abramson. Mr. Rozanski responded in the affirmative, adding he had expressed to her that she was welcome, in any event, to speak before the Retirement Board. He informed the Board that a letter outlining the issues could be provided to them.

19. Future agenda items.

President Romero thanked the Board and the meeting was adjourned at 11:38 a.m.

JAVIER ROMERO
President

ROBERT K. ROZANSKI
Acting Secretary

IRENE COLON
Recording Secretary