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

MINUTES – April 20, 2005

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Michael Moore	Retiree Member
Eugene Canzano	Board Member
Ronald Deaton	General Manager
Ron Vazquez	Chief Financial Officer

Absent:

Gerard McCallum II	Commissioner

Others Present:

Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Sarah Bernstein	Pension Consulting Alliance
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 10:04 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

PUBLIC COMMENTS

Ms. Bhatia indicated a quorum of the Board was present.

Ms. Bhatia stated there were no public comments.

President Romero reported items 1 and 2 were submitted for consent approval as follows:

1. **Approval of Board Minutes for February 16, 2005 (Regular Board Meeting)**
   Termination from Monthly Rolls as of April 2005:
2. **Retirement Resolution for April 2005**
   Termination from the April Family Death Benefit Roll: Ryland Martinez – Attained 18 years of age; Katherine Martinez – son attained 18 years of age; John Watkins and Pearle L. Weiner - Deceased
   Appointment of Imelda Stark as Guardianship for Agnes E. Townsend

Mr. Canzano referred to page 1.3 of the Board package in the first paragraph of the February 16, 2005 Board minutes and pointed out it should read, “ She indicated PCA” instead of “She indicted PCA”.

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

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, and Moore
Nays: None

3. Report of Payment Authorizations as of March 2005
4. Notice of Deaths for March 2005
5. Short Term Investments as of March 31, 2005
6. Market Value of the Retirement, Death, and Disability Funds as of February 28, 2005

President Romero reported items 3 through 6 were submitted as having been received and filed.

Mr. Vazquez noted the Market Value report for February 28 was included in the agenda packet as Item 6 and inquired if the report for March 31 reflects all the mandates being funded. Ms. Bhatia responded in the affirmative.

Mr. Canzano referred to page 6.2 of the agenda packet under fixed income for the subtotal Active Domestic Core Fixed Income. He noted that the market value was down a little bit, and inquired if this was a bond fund. Ms. Bhatia responded in the affirmative. He inquired if the bond fund would sink, following the market. Ms. Bhatia responded this was correct.

Mr. Moore moved the above items 3 through 6 be received and filed. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, and Moore
Nays: None

7. PCA Report on Transition of Boston Company Remnant Portfolio to International Managers

Mr. Neil Rue introduced himself and Ms. Sarah Bernstein, and suggested to the Board that items 7 and 8 be addressed together with a brief summary. He stated there were two major transition programs, and the funding of all the mandates is currently being wrapped up. Mr. Rue referred to a memo by PCA on page 7.1 of the agenda packet discussing the funding of the international mandates and moving $400 million from the Boston remnant portfolio. He stated the memo indicates that the transition went smoothly. Mr. Rue then referred to a memo on page 8.1 of the agenda packet by PCA highlighting prior funding totaling approximately $270 million. He stated this all flowed from the Merrill Lynch Passive Domestic Equity index fund, which is a highly liquid equity oriented index fund into some primarily fixed income mandates, adding this went very smoothly as well.

Mr. Vazquez inquired if the Boston remnant portfolio had been completely liquidated. Ms. Bhatia responded it had been completely liquidated. However, there are some remnant dividends that have come into the portfolio, but are being transferred out as cash. She reported $398 million was transitioned.

Mr. Vazquez inquired where the monies for the Real Estate and Alternative Investments are sitting. Ms. Bhatia responded those monies are under the Passive Equity portfolio that is being managed by Merrill Lynch.

8. PCA Report on Transition of Merrill Assets to High Yield Mandates and a Portion of the Small Cap Mandate

Item 8 was discussed in conjunction with Item 7.

9. Discussion and Possible Action on the Proposed Investment Consultant Fees

President Romero introduced item 9, and stated because of hiring PCA to be inclusive of Real Estate and Alternative Investments, a higher fee would be incurred. He conveyed staff's perception that PCA should only be paid for work that has actually been done. He stated PCA's perspective is that their firm should be paid what was initially proposed. President Romero requested a clearer direction from both staff and PCA on their different perceptions.

Ms. Bhatia expressed, based on the schedule included in the Board package presented by PCA, staff believes the work for Real Estate and Alternative Investments will take some time. She stated, as in the past, educational sessions and discussion of options available should be considered under the general consulting retention fees. She added the fees in connection with the Alternative Investments and Real Estate investments should only be incurred at the time the work specifically associated with those asset classes is entered into. Ms. Bhatia referred to page 9.2 of the agenda packet wherein the main point is summarized. She stated, under point 2, PCA believes that the process of implementing these asset classes will take some time, and they have included time for educating the Board into their schedule. She further stated that PCA estimated the educational process to be approximately six months. In addition, PCA recommends the Board enter into the alternative investment classes before taking the Real Estate classes.

Mr. Rue stated that PCA went through the RFP process and submitted a couple of offers in terms of pricing. He pointed out that the fee schedule reflected on page 9.1 is consistent with what PCA originally proposed at $750,000 a year. Mr. Rue indicated PCA then come back with their best and final offer of a bundled arrangement of $712,000. He stated now staff is proposing operating under the original $750,000 schedule, but implemented at a different pace. He stated it starts to be a bit of a philosophical question about how to best utilize the resources of the Department's fund and have PCA do the work that is desired. Mr. Rue explained the purpose of a bundled fee is to bring the entire relationship and all the teams PCA has to offer to the table regardless of timing. He stated under this arrangement it is approximately $40,000 cheaper a year, assuming everything starts at the same time.

Mr. Rue noted that Ms. Bhatia mentioned there were some issues of timing with regards to entering into investments. He stated PCA believes this happened in their previous contract when the Board saw other people in different areas of expertise. Mr. Rue expressed PCA believes, once their firm enters into a new contract, these other experts are going to be involved in different forms of education from day one and should be compensated appropriately under their specialized area. Mr. Rue noted that PCA has brought in Pamela Alsterlind three times, adding she is a real estate expert and not a general consulting expert. Therefore, under PCA's contract and the negotiations with the other units within their firm, Ms. Alsterlind should be compensated accordingly. Mr. Rue expressed there exists a philosophical difference among staff in that PCA believes once their firm was hired under a $712,000 a year contract, all of the teams would be working for the Department. He stated, in a sense, the initial education is complete because PCA has conducted two educational sessions for the Board in the areas of Alternative Investments and Real Estate. He added that even though there is clearly going to be more education on the table, it is really beginning to be more about how to implement the Real Estate and Alternative Investments. Mr. Rue noted the Board might have additional questions regarding hedge funds and hesitation about entering into this type of investment after receiving an additional amount of implementation education. He stated, if this were the case, more discussion would be needed, particularly with respect to alternatives investments. However, to the extent the Board does not want to enter into a certain area, PCA would lower their fee.

Mr. Rue stated the issue is that the Board has already made some allocations to the areas of Real Estate and Alternative Investments. He explained that a lot of Plan sponsors feel that Alternative Investments consists of private equity, buy out funds, venture capital, mezzanine, and other areas, but not hedge fund by itself. Mr. Rue stated hedge funds was introduced into the RFP process because it is an area that deserves a lot of discussion, and the Department's peers are still trying to figure out how to implement it. He stated if the Board chooses to turn off hedge funds it does not mean they will be walking away from Alternative Investments. He added that this should be factored into any movement going forward. Consequently, there remains some gray area in terms of the implementation process; and PCA feels that before proceeding, it would be best to start with a bundled fee and have the teams focus on this. Mr. Rue reiterated that, to the extent there is a decision made later, PCA's fee could be adjusted accordingly.

Ms. Bernstein commented that, from PCA's perspective, the purpose of the RFP process was because the Board wanted to look at options for consulting in order to move into the areas of Real Estate assets and Alternative Investments. She stated the Board is now at the stage where they are ready to implement and decide how to set policies and strategies, retain managers, and fine-tune the asset allocation.

Ms. Bhatia commented it was up to the Board to decide on the timing of entering into the different asset classes, and staff did go out with an RFP based on the Board's direction. She indicated the Board also gave staff direction to go back and request the fees be separated into three categories. Ms. Bhatia explained the reason for this request was to allow Board members the flexibility to either enter into Real Estate and Alternative Investments immediately or to defer the implementation. She stated, based on the asset allocation structure, there has been a certain amount put aside for those two asset classes, but there is a lot of work to be done before one can enter into these asset classes. Ms. Bhatia indicated staff did go back to the RFP requesting separate fees as well as a bundled fee from all applicants. She explained that the bundled fee represents a savings of $38,000 over the fees quoted separately, which is $750,000 for the year. However, when looking at point 1 on page 9.2 of the agenda packet, for every month that is spent in deciding or discussing, the Plan is paying $43,000 a month, which more than offsets for the $38,000 savings per year. Ms. Bhatia pointed out that the Board could take as much as six months to make a decision, and PCA definitely recognizes that the implementation process takes time. She reported staff has already put the contract together and it is complete except for this one item. However, staff was under the impression the Board had not completely decided on whether to go into hedge funds or which category of Alternative Investments to go into. She indicated staff is trying to do what is most prudent for the Plan and feels that fees should be incurred at the time services are provided.

Mr. Rue pointed out that implementation is not education and there are comments in the contract that he personally input stating that it is going to take a certain amount of time to implement. He explained that implementation is having other experts (in addition to the consultants) design policies, and prepare certain private equity managers and funds. He emphasized there is plenty of initial work in implementation that has to occur.

Mr. Moore inquired if staff was looking at this primarily as a cash flow issue or if they are concerned with the variability of charges that would ultimately be paid by the fund over the course of time. He stated it was his understanding that the Plan is being billed on a fee basis. He then inquired if staff had provided for billing fees by consultant type, and was it bid this way in the package that was submitted by the consultants. Ms. Bhatia responded it both separate and the bundled fee quotes were how the quotes were received from all applicants. Mr. Moore clarified his question by asking how would one break down the Real Estate fees if the consultant started the billing on some basis other than a retainer basis. Ms. Bhatia responded, if the Board decides to go into Real Estate six months from now, this is when the charge for the fees would begin. She reiterated that staff feels services should be paid for at the time they are actually provided, rather than in advance.

Mr. Rue stated if the contract started a year out and only lasted two years then that totally blows out the best and final offer from PCA's perspective. He indicated PCA is open to discussing the option of staggering the contracts per staff's request, which would be three-year contracts. Mr. Deaton commented that legally PCA has a three-year contract. Mr. Rue clarified it could also be three separate three-year contracts, the general contract, Alternative Investments, and Real Estate. Mr. Rue stated, in terms of implementation, these shorter window contracts in these particular asset classes would not work. Mr. Deaton commented that if the money is being spent for consulting to implement and the Board decides not to implement, then the Plan is not going to get any value for that money the first year.

Mr. Vazquez stated the Board went through a thorough asset allocation process, approximately two years ago, looking at different risks and returns of the various asset classes. He further stated PCA came up with an allocation of 4% to Real Estate and 5% to Alternative Investments to be matched with the other asset classes in order to get the expected yield. Therefore, the Board has made a determination to follow through with two asset classes in the asset allocation structure. Mr. Vazquez explained those two asset classes were left because the Board is least familiar with them and the others were easier to implement. He referred to PCA's schedule on page 11.2 of the agenda packet, and noted it calls for PCA to start with the equity, Real Estate, and hedge funds in the May, June, July timeframe. Mr. Vazquez suggested transferring the funds to these asset classes instead of it sitting in an index fund. He pointed out the Board has provided two educational roundtables, but he feels there is a need for more education, along with the development of a policy, strategy, and implementation for the Board.

Mr. Moore commented that he was not a member of the Board at the time the decisions were made relative to allocations, but when he became a member, he had certain misgivings regarding the two asset classes, as far as education is concerned. He indicated, as the Board goes through these sessions, he plans on asking a lot of questions and requesting numbers be crunched. Mr. Moore stated when the Board begins the strategic analysis on how to approach the asset classes; he predicts the consultants will be doing more than general education as the Board prepares for the strategy they ultimately will adopt. He then inquired if there was a cancellation provision in PCA's contract, and if so, was it for the entire contract. Ms. Bhatia responded there is a cancellation provision but it is for the entire contract. Consequently, if the Board chooses to go ahead with the annual retention fee proposed by PCA, which is $712,000, it would actually be bundled services for all three contracts. She indicated staff could insert new language in the contract. Ms. Bhatia referred to page 9.3 of the agenda packet to point 3 that expressed PCA recognizes the Board may decide not to invest in one of these asset classes or change the allocation. She further expressed PCA is proposing coming back before the Board to renegotiate a reduction at that point in the bundled fee. Ms. Bhatia stated it was staff's opinion that renegotiating in the middle of a contract was not a good way to proceed especially since the Board would need time to make a decision on these asset classes. She referred back to PCA's schedule on page 11.2 and pointed out that the policy is not scheduled to come for Board approval for private equity until August. Ms. Bhatia stated it was staff's view that there should be no fee incurred until the policy is drawn up for each of these asset classes. She stated staff recognizes there may be some gray areas when the work will begin, but staff is approaching it from the perspective that information regarding these asset classes would fall under general consulting.

Mr. Deaton suggested starting with the bundled fee of $712,000 initially, and inserting a clause in the contract that would allow for reverting to the separate fee structure of $750,000, which would be adjusted for decisions Board members may have made. Mr.

Deaton explained if the Board had decided to cancel the Real Estate, for example, a year from now, then the fee for Real Estate would reduce the separate fee.

Mr. Deaton moved a new PCA contract be drawn to pay the original fee of $712,000 initially with the provision if any one of the asset classes were eliminated it would result in a different lower set of fees. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, and Moore
Nays: None

Mr. Vazquez requested an item be placed on the next Board agenda to discuss the asset allocation, what alternatives exist that should be changed based on what has already been funded, and what other changes could be made to try to achieve the same risks and balances in lieu of what these allocations are now. He expressed he also has misgivings about these two asset classes because they are riskier and he is not that educated in them. Mr. Vazquez stated he wanted to know what the Board's options are before going through the educational.

10. Resolution Extending PCA's Contract from April 22, 2005 to May 21, 2005

President Romero inquired how long did PCA's contract need to be extended. Ms. Bhatia responded it was needed for one month. Mr. Deaton inquired how long was the existing contract. Ms. Bhatia responded the contract started in 2001 and an RFP went out last year to include Real Estate and Alternative Investments. Ms. Bernstein commented it was originally a three-year contract that was extended because of the need to go through the full RFP process. Consequently, PCA extended the contract for six months. Mr. Deaton inquired if the City Attorney's Office signed off on the contract. Ms. Bhatia responded that they would sign it. Mr. Deaton inquired if the contract had to go to Council for approval beyond three years. Attorney Wilkinson responded in the negative because this was just to extend the original contract.

Mr. Vazquez moved approval of Resolution 05-77 to extend PCA's contract No. 126 for one month. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, and Moore
Nays: None

11. PCA's Proposed Schedule of Manager Presentations and Education and Policy Development Seminars Relative to New Asset Classes

Ms. Bernstein stated PCA put together a proposed schedule to give the Board some sense of the results of previous meetings and decisions by the Retirement Board. She stated the schedule also outlines how the Board might approach beginning policy development and strategy in the new asset classes. Ms. Bernstein referred to page 11.2 of the agenda packet to a table reflecting a series of presentations of public security money managers. She stated PCA is proposing a first annual roundtable scheduled for fall. She also suggested a discussion be held at the May Board meeting regarding the implementations of private equity, in both policy and strategies. Ms. Bernstein conveyed PCA's suggestion that the Board have more in depth discussions regarding hedge funds because it is a more complex asset class. PCA also suggested holding a roundtable with experts, fund-to-funds managers, as well as others for the month of June. Ms. Bernstein reported, based on the proposed schedule, PCA would be ready to put forward a private equity proposal and strategy for the Board's adoption in August. Subsequently, the Board could start looking for managers depending on how they decide to proceed.

Ms. Bernstein noted one of the issues that came up last year was the Board wanted to take a more in depth look at their proxy voting policy and set up an educational class to become more apprised of what their options are. She added this was also included in the schedule. President Romero noted, for the record, the asset liability study, as well as the asset allocation, the return that is expected is based on having these two asset classes within that structure. He inquired if we do not have them then our expected return can potentially change. Mr. Rue responded in the affirmative.

Mr. Vazquez inquired what alternatives did the Board have to these allocations to maintain, more or less, the same risk return the Board is looking for. Ms. Bernstein responded that PCA would prepare a memorandum addressing Mr. Vazquez's question. President Romero suggested that since there are new Board members, PCA should address how additional risk is not necessarily bad, and how diversification can reduce risk in the entire Plan.

Mr. Moore noted when looking at the schedule there are only two Special Board meetings and the rest are Regular Board meetings. However, most of the items listed are fairly time consuming if discussed thoroughly. He inquired if the other Board members were comfortable with scheduling additional Special Board meetings in addition to the Regular meetings in order to accomplish this. Otherwise, a number of the meetings will be all day. President Romero responded he was open to any schedule. He then asked PCA if this would be an all day class or was it something that could be bundled into a general meeting. President Romero commented that some of the Board members run on a schedule and are unable to spend a full day in a Board meeting. Ms. Bernstein stated she did not foresee any of the meetings taking an entire day, but it would depend on what other items are on the Regular Board agenda. Mr. Rue recommended the May 18th item, the hedge fund item, and stated the real estate item on July 20th be set aside so that the Board is able to get their questions on the table and are not rushed to get the next agenda item. He stated the Board might get a better understanding of the policies, depending on how those meetings go. President Romero inquired if Mr. Rue was suggesting scheduling Special Board meetings for May 18, July 20, and September 1. Mr. Rue responded maybe shifting those dates so the Board can have time for questions and answers, which is important in these particular areas. Ms. Calvache inquired what was the purpose of the September meeting. Mr. Rue responded that PCA is recommending the first Private Equity, Hedge Fund, and Real Estate education classes be discussed under a Special Board meeting in September.

Mr. Vazquez commented, since Mr. Moore, Mr. Canzano, Mr. Deaton and Commissioner McCallum were not members of the Retirement Board during the asset allocations, he requested PCA to give a short presentation on materials previously presented to the Board regarding asset allocation. More specifically, regarding allocations of other systems, the Department's previous allocations, and the way the asset classes fit in with each other in trying to achieve this return.

Mr. Deaton recommended starting the May 18th Regular Board Meeting at 8:00 a.m. for PCA's review of the asset allocations, and start the regular items on the Board agenda at 10:00 a.m.

Mr. Rue inquired if the Board was comfortable with the schedule for bringing in the managers. President Romero and Mr. Vazquez responded they were comfortable with the schedule.

Mr. Moore inquired if the Domestic Equity roundtable would be held after the Board has heard from each of the three Domestic Equity sub-asset managers, and would this be redundant. Mr. Rue responded there was a good probability of redundancy. Therefore, after the July meeting, the Board could raise the question of whether or not they want to come back two months later to do this. Ms. Bernstein commented that whatever roundtable is scheduled for a given year there will be some redundancy with the similar managers in that field.

12. PCA's Proposed Policy on Rebalancing Asset Allocation Structure

Ms. Bernstein reported the Plan has specific target allocations for each asset class, sub-asset class, and for managers. She stated the rebalancing proposal recommends a more in-depth policy to rebalance the portfolio more easily. Ms. Bernstein explained the purpose of rebalancing is to allow one to get back on target if they get too far off. She further explained it prevents riding every high and low with every market. Ms. Bernstein stated the policy specified some policies and procedures for rebalancing, and typically what PCA recommends is the client setting out target ranges so that in case they move a point off their target at 15% or 60% equities they do not move back. She added rebalancing is necessary when an asset class or sub-asset class exceeds or goes below the minimum range. Ms. Bernstein reported PCA's second recommendation is rebalancing back to the midrange of that particular asset class rather than taking it all the way back to the actual target.

President Romero noted that on page 12.2, Section A, PCA recommends tighter ranges for asset classes that are relatively less volatile, for example, the passive strategy. He inquired if this meant rebalancing sooner rather than later. Mr. Rue clarified that passive does not mean less volatile. He explained passive means it is going to replicate the benchmark easier, but there are also passive equities that are more volatile than bonds. President Romero requested an example of an asset class requiring a tighter range. Ms. Bernstein referred to page 12.3 of the agenda packet reflecting PCA's proposed recommended target ranges, stating the minimum and maximum on both sides are both equal percentage increases or decreases below the target. For example, Emerging Markets is a more volatile asset class than Large Cap Core Equities, and even more so than Fixed Income Core asset classes. She recommended placing a broader range around smaller and more volatile asset classes, wherein the markets tend to move up and down a lot, to avoid having to rebalance as quickly.

President Romero noted there had been some discussions in the past regarding who should monitor the allocations, and PCA's recommendation is for staff to perform the monitoring. He then inquired if there was any way staff and PCA could work together on the monitoring. Ms. Bernstein responded in the affirmative. Mr. Moore inquired if Mellon Bank monitored the funds on an ongoing basis. Mr. Rue responded Mellon Bank issues a daily report that staff can review online. President Romero commented he just wanted to make sure there was a check and balance. Ms. Bhatia indicated PCA also has access to the Mellon reports. Ms. Bernstein stated once target ranges are set, staff could review the reports every morning. She suggested putting this staff responsibility in writing in the procedures. She stated PCA would work with the investment consultants in providing recommendations to the Board to rebalance back to targeted ranges. Mr. Moore commented, when Mr. Rozanski was Acting Plan Manager, it was his understanding the cash level was raised to 2% rather than 1%. He then inquired if this was temporary. Mr. Rue responded in the affirmative. Ms. Bernstein responded that the ultimate resolution by the Board was to raise the cash level to 2% temporarily without changing any of the actual allocation targets. She added, this is why cash is still at the target of 1%. Mr. Vazquez commented it was his understanding that it was a temporary arrangement to provide cash flow. Ms. Bhatia clarified it was a temporary arrangement to be revisited at the time the Board decides to go into Alternative Investments and Real Estate. Consequently, staff did not change the allocation for Real Estate and Alternatives, and as a result, the total adds up to 101% as opposed to 100%. Mr. Moore inquired if Ms. Bhatia was comfortable with the way cash is currently structured at a 1% target. Ms. Bhatia responded staff would lower the cash allocation level back to 1% and expects to bring this item before the Board at the next Board meeting. She indicated staff was looking at options on how best to invest the short-term cash needed for benefit payments. However, currently there is a resolution that says it was 2%.

Mr. Vazquez referred to the table on page 12.3 of the agenda packet and inquired if the minimum percentage for cash should be .5% and the maximum 1.5%. Ms. Bernstein responded in the affirmative. Mr. Vazquez referred to page 12.2, Section B of the agenda packet wherein it states, "Rebalancing will generally not occur more frequently than every three months." He then inquired what the statement "in the event that market conditions generate a need to rebalance prior to one month," meant. Ms. Bernstein responded the statement means prior to a monthly meeting. She explained if the market collapses tomorrow one would not want to wait a whole month to figure out what to do. Ms. Bernstein informed the Board that staff and the investment consultants suggest the Board consider rebalancing to the midrange between the targets. Mr. Rue indicated that other Plan sponsors implement this; and sometime in the future, to the extent that rebalancing is not occurring as often, the Retirement Office staff could implement it and report to the Board. President Romero inquired if this should be automatic if a balancing policy already exists. Ms. Bernstein responded sometimes a decision has to be made of whether to delegate that authority to staff or decide as a Board. She stated all of the decisions for re-balancing was put at the Board level to keep it clear.

Mr. Canzano inquired, typically in the industry, when one is going towards a limit and hits it, would that trigger rebalancing or is there a hold in that threshold for any time-period before doing the rebalancing. Mr. Rue responded staff probably watches this for a matter of weeks, and if for example they see equities at 46.5% for a couple of months, they would rebalance back a percent into other asset classes that are underweighted at that point. Mr. Canzano inquired if this was something that urgently needed to be addressed when this threshold is crossed. Mr. Rue responded if it were a decision that has to come before the Board, it would definitely not be instantaneous. He stated the Board would see where the violations were and there will be recommendations. Mr. Deaton requested a history of the actuals and how they have fluctuated for the last couple of years. Ms. Bernstein responded that the Plan has had so many fundings it would be very difficult to track. Ms. Bhatia stated some of the asset classes could be provided. Mr. Moore suggested showing the variability in the benchmark. Mr. Deaton stated after reviewing the information, if he reaches a certain comfort level he would be willing to delegate the responsibility to staff.

Ms Bhatia stated, for clarification of the paragraph Mr. Vazquez was questioning, it discusses staff coming back to the Board for approval to implement the rebalancing and it discusses contacting the President of the Board if it is necessary to do the rebalancing within the month. She then inquired if the Board was going to adopt the policy right now or should it be brought back for discussion. Mr. Deaton expressed he would like to review the fluctuations first; therefore, the policy should be brought back before the Board. Mr. Vazquez recommended bringing the changes to the guidelines back also.

13. Report on Security of Retirement Office

President Romero introduced item 13, stating he had previously raised his concerns of student workers being employed in the Retirement Office and working in a file room containing personal information. He further stated, although it is an admiral program, the Department has no background on the student workers and the Retirement Office contains at lot of sensitive information. President Romero conveyed Ms. Calvache's concerns of the Retirement Office being so open, along with the file room.

Ms. Calvache expressed her concerns that the back door of the Retirement Office that employees enter and exit from is not locked during working hours and leads straight to the file room. She indicated, when she first brought her concerns to the Board, staff installed a lock on the file room doors. Ms. Bhatia informed the Board there are locks on the file room doors and that all of the work in the Retirement Office is of a confidential nature, not just the file room. She stated new locks were installed last year and very few employees have keys. She also stated no maintenance employee are allowed in the office unless it is within regular business hours, the file room is locked every evening, and files are utilized by all of the employees, including student workers whose main job is to file. Ms. Bhatia reported that staff did receive a quote for the Card Reader System and if the Board acts the system could be implemented. She stated the cost is based on the 2002 quote, so a new quote would have to be obtained.

President Romero commented that the City has a great system set up that allows only certain employees entrance to the file room. He added there are Federal requirements regarding access to confidential personnel information and Health Information Protection Act (HIPA) provisions. Yet, DWP is giving student workers access to sensitive information without having any background on the students. Ms. Bhatia responded the student workers come from the Youth Services Academy (YSA) program. Ms. Calvache agreed that the program for student workers is a good program, but if any of the files are lost, they cannot be replaced. Ms. Bhatia informed the Board that student workers are supervised, but if they cannot file then the Retirement office would have no use for them. President Romero expressed his opinion that student workers should not be working in the Retirement office and filing should be done by Clerk Typists. He stated he was very uncomfortable with this, especially since there is no recovery for any of the information. Ms. Bhatia mentioned that the project for scanning all of the files had begun. Mr. Deaton suggested that staff research what the other City offices' practices are, but he would also like to proceed with the Card Reader System. Ms. Bhatia inquired if a motion for the Card Reader System was necessary.

Mr. Deaton motioned the approval to proceed with the Card Reader System. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, and Moore
Nays: None

Mr. Vazquez inquired if the additional cost of $3,000 per lock for the other doors was included the amount for a Card Reader System. Ms. Calvache responded in the affirmative.

Mr. Canzano inquired if the card readers would log employees in and out of the Retirement Office, or just specifically the file room. Ms. Calvache responded the card readers would be utilized for both purposes. Mr. Deaton commented that the system keeps a computerized log for each person who enters.

14. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (April 1, 2005, Edition).

Mr. Moore noted that this month's newsletter was late coming out, along with a number of other items over the last several months. He listed direct deposit advices, checks, and 1099Rs among items being late. Mr. Moore expressed his concern that staff does not have the ability to track these time sensitive items, and suggested some sort of tracking system be developed to ensure their timeliness. He stated he was not sure if the problem is in the mailroom or the mail house that ultimately sorts the mail for the post office. Ms. Bhatia concurred that this month's newsletter was very late. Consequently, staff met with the print shop that contracts with a vendor called Adwest, and there were delays on both ends. She agreed there needs to be a tracking system in place and staff has implemented a new method of a tickler reminder to make sure the newsletter leaves the print shop on time. She explained the reason the newsletter was late was that the print shop's equipment broke down and did not inform the Retirement Office. In addition, when staff inquired on the status of the newsletter the print shop informed them it had already gone out; however, it was the Employee's Association's newsletter that went out. Ms. Bhatia explained the reason the direct deposit advises and checks went out late was because the payment to the post office had not been made and the Retirement Office had no way of knowing this. She reiterated that staff was implementing a number of controls.

b) Access to Mellon Reports for Board Members

c) General Items

RETIREE BOARD MEMBER

Ms. Bhatia reported that the term for the Retiree Board member being held by Mr. Moore would be expiring June 30, 2005. She stated this was formally announced and the Retirement Office is accepting applications for appointment to this position. President Romero inquired if Mr. Moore was running for another term. Mr. Moore responded he would be submitting an application. Mr. Vazquez inquired if the Retirement Office had received many applications. Ms. Bhatia responded that a couple of applications had been submitted. Ms. Calvache inquired when was the deadline to submit an application. Mr. Moore responded May 3.

MELLON BANK REPORTS

Ms. Bhatia reported staff was currently working on the Board's access to Mellon Bank's reports. President Romero stated he had previously requested a spreadsheet reflecting which money managers had met their insurance requirements and when it expires in order to prevent the managers from being out of compliance. He stated there are different managers, their insurances do not necessarily run in correlation with their contract, and may expire sooner. President Romero recommended keeping a record to keep track of all the managers staying in compliance. Ms. Bhatia inquired if President Romero wanted to know each time a manager's insurance expires. President Romero requested staff include a running report of the money manager's insurance status in the monthly Board package under "received and filed" section.

15. Future agenda items

The Board meeting was adjourned at 11:23 a.m.

JAVIER ROMERO President	SANGEETA BHATIA Secretary

IRENE COLON
Recording Secretary