

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

MINUTES – May 18, 2005

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Eugene Canzano	Board Member
Ronald Deaton	General Manager
Ron Vazquez	Chief Financial Officer
Gerard McCallum II	Commissioner

Absent:

Michael Moore	Retiree Member
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Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance (PCA)
Neil Rue	Pension Consulting Alliance (PCA)
Mary Jo Curwen	Deputy City Attorney

President Romero called the meeting to order at 8:10 a.m.

A moment of silence was observed in honor of Miguel Contreras (Los Angeles County Federation of Labor).

[Pledge of Allegiance]

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

PUBLIC COMMENTS

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:**
 - a) **January 26, 2005 (Audit Committee Meeting)**
 - b) **March 16, 2005 (Regular Board Meeting)**
 - c) **April 20, 2005 (Regular Board Meeting)**

- 2. Termination from Monthly Rolls as of May 2005:
Retirement Resolution for May 2005
Resolution terminating Eva Hamilton from the May Survivorship Roll as a result of her death
Resolution temporarily terminating Louis J. Berry from the April 2005 Family Death Benefit Roll as a result of the death of his mother, Louise E. Berry**

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

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

- 3. Report of Payment Authorizations as of May 2005**
- 4. Notice of Deaths for May 2005**
- 5. Short Term Investments as of April 30, 2005**
- 6. Market Value of the Retirement, Death and Disability Funds as of March 31, 2005**
- 7. Status of Insurance**

Ms. Calvache moved the above items 3 through 7 be received and filed. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

8. PCA's Report on Investment Activity Recap 2001 - 2005

Mr. Rue presented the Board with an Investment Activity Recap for the years 2001 to 2005. He stated the purpose of the report was to review some of the history of investment activity for the new Board members.

Commissioner McCallum arrived at 8:35 a.m.

Mr. Vazquez inquired how often should the asset allocation of a fund be revisited. Mr. Rue responded an asset liability study should be performed in a four to five year timeframe. Mr. Vazquez inquired where the targeted 8% return fit in with regards to developing an asset allocation. Mr. Rue responded it was part of the actuarial and evaluation study. He explained the 8% is a long term forecast of what the assets should produce, coming from both the actuary and/or investment consultant. Mr. Rue stated this typically is revisited each time an evaluation study is performed on the actuarial side, which can be as often as a year. He added a lot of public funds have moved from 8% to 7 3/4% and 7 1/2%. He stated the implication of changing the assumption affects a lot of things, such as the size of liability.

Mr. Vazquez inquired if there were any index funds on the international side. Mr. Rue responded the same indexers that have expertise on the domestic side offer international products. He reported that historically managers have been more successful in producing alpha internationally than they have been domestically.

Mr. Vazquez requested PCA make some recommendations to the Board as to what type of insurance requirements they should consider for the real estate and alternative investments, and what is standard in the industry. Ms. Bernstein stated PCA would bring this information back to the Board. Mr. Deaton requested information on what other pension plans' requirements are in the area of real estate and alternative investments beyond the insurance requirements. Mr. Vazquez also requested recommendations for the Board based on what PCA saw the firms were able to offer in terms of insurance without problems, as well as the guidelines of the other systems. Ms. Bernstein stated PCA would provide information on both the public funds, and the alternative and real estate investments.

Mr. Rue suggested towards the end of 2005 the Plan's investment policy document should be reviewed and consideration should be given on how to enhance it.

Mr. Rue expressed that Mellon is one of the best custodians in the industry, and suggested the Board utilize the bank and their tools, and develop the appropriate monitoring and reporting systems.

9. PCA's Report on Asset Allocation Options that Exclude Real Estate and Alternatives

Mr. Rue stated the PCA memo on page 9.1 of the Board package is in response to Mr. Vazquez's inquiry if there were portfolios with similar risk portfolios when one does not include real estate and alternative investments. He explained the reason real estate and alternative investments are in the portfolio is for diversification purposes. He further explained that diversification provides better return with the same amount of risk, or a similar return and the ability to lower the risk a little bit. He stated, in both cases, it improves the risk adjusted return in the portfolio.

Mr. Rue outlined the memo stating the exclusion of real estate and/or alternative investments could have a material impact upon the risk/return profile of the policy portfolio. He referred to table 2 on Page 9.2 of the agenda packet reflecting selected efficient portfolios with equivalent risk/return objectives when compared to current policy. Mr. Rue stated the table reflects that the current policy, using the current assumption is expected to produce a return of 7.6%, with a 56% chance the 8% will not be achieved. He pointed out the chart also shows what the return would be if 9% was removed from real estate and alternative investments and allocated per the policy to the other asset classes, resulting in a 60% chance of achieving 8%. Mr. Rue indicated PCA looks for portfolios with the same probability of underachieving the 8% on a long-term basis.

Mr. Rue stated, in answering Mr. Vazquez's question, PCA can find portfolios that look relatively similar if one was patient and held them for 10 years, but in the intervening

short term periods (year end, year out) the volatility is going to increase. Therefore, the Board should be cautious in de-diversifying the portfolio. Mr. Vazquez inquired, based on their analysis, was PCA recommending the Retirement Board follow through with the current asset allocation. Mr. Rue responded in the affirmative. Mr. Vazquez commented it was now up to the Retirement Board to decide how comfortable they are with following through with real estate and alternative investments. President Romero expressed he was totally comfortable with the two asset classes for the sake of diversification alone. However, he needed to develop a comfort level in the specific assets within the asset classes. He added the educational process would help the Board with this.

President Romero expressed Mr. Rue did an excellent job on the investment activity recap.

10. PCA's Report on Proposed Policy on Rebalancing of the Asset Allocation Structure per Board's Direction

Ms. Bernstein indicated last month PCA introduced a proposed rebalancing policy to the Retirement Board for discussion and potential implementation. She pointed out the first memo on page 10.1 of the agenda packet answers a couple of questions that were raised during the last Board meeting.

Ms. Bernstein noted Mr. Deaton inquired how many times would rebalancing had been necessary with the current asset allocation if all of the managers had been in place. She stated since all of the managers were not in place, PCA took the benchmark and percentages of the asset allocation and compared them to the markets and how many times rebalancing would have been necessary. Ms. Bernstein explained, when taking a 5-year look from March 2000 to March 2005, the WPERP would have rebalanced its portfolio approximately 9 times. She added the year 2000 was a period of extreme volatility, and the stock market and tech markets collapsed.

Ms. Bernstein referred to a table on page 10.2 of the agenda packet reflecting where the WPERP's portfolio fund stood on April 30, 2005. She stated staff pulled information from Mellon's system and combined it with the target minimum and maximum rebalancing policy PCA is recommending in order to show the Board, as of April 30, where rebalancing was necessary. She stated at this time, none of the managers are out of range, but this is something staff can monitor on their own.

President Romero noted the maximum asset allocation percentage for Large Cap Core is 23%. He then inquired if the fund hit 23% tomorrow, would PCA recommend staff wait a week to see what happens, and come before the Board at the next meeting to discuss it. Ms. Bernstein responded depending on the situation, it should automatically rebalance and not require immediate action. She stated the next policy is written to set out straightforward guidelines wherein the Board will make the rebalancing decisions. However, staff will make decisions on rebalancing after checking with the Board, and in the event there is some interim event that causes major disruptions to the portfolio, the President of the Board would take the steps to either meet with Retirement Board to act

or not. Mr. Rue commented, with regards to the big asset classes, if the fund were to go half a percent over it would be cause for potential action. Mr. Vazquez inquired if this needed to be adopted as policy or how would it be handled. Ms. Bernstein responded the PCA memo on page 10.3 of the agenda packet set forth the recommended policy for the Board's adoption, including the recommended targets and ranges. President Romero inquired if a resolution was necessary. Ms. Bhatia responded the policy would be included as part of the guidelines for Board approval.

Mr. Vazquez moved adoption of PCA's proposed policy on the rebalancing of the asset allocation structure. Seconded by Commissioner McCallum and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, McCallum and Deaton

Nays: None

Mr. Rue indicated PCA would include the target ranges in the quarterly performance report for the Board's review. President Romero suggested Mellon review it on a daily basis.

11. PCA's Revised Schedule for Managers and Educational Presentations to Board

Ms. Bernstein indicated she moved all of the presentation dates down to start in June and moved the first Special Board meeting on Hedge Funds to July 6. However, it could be adjusted to fit the Board member's schedules. Mr. Deaton commented he would have a conflict with the August 17 meeting. President Romero instructed the Board to alert staff if any of the scheduled Board meeting dates conflicts with their schedule. He also stated that an August Board meeting would be difficult for him to attend. Ms. Bernstein suggested not scheduling a Board meeting in August.

Ms. Bernstein stated with regards to the June meeting PCA will come back with a recommendation and some background discussion for the minimum insurance requirements. She stated PCA would also go through an education policy on the private equity side. In addition, they are going to bring in the first two managers for their reviews. Ms. Calvache indicated she and Mr. Canzano would not be available for the June 15 Board meeting. It was decided to change the June Board meeting to June 22, 2005, at 8:00 a.m.

12. Changes to the Plan's Cash Allocation and Cash Management Procedures – Resolutions Nos. 05-81 thru 05-83

a) Authorization to Change Cash Allocation from 2% to 1% of the Retirement Fund Portfolio

Mr. Vazquez moved approval of Resolution 05-81. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, McCallum and Deaton

Nays: None

b) Authorization to Discontinue Purchase of Commercial Papers and Utilize the Money Market Fund Provided by Mellon Bank

Commissioner McCallum moved approval of Resolution 05-82. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, McCallum and Deaton

Nays: None

c) Authorization to Obtain Reimbursement of Cash from Merrill Lynch Large Cap Index Fund Periodically when Cash Falls Below \$40 Million

Ms. Bernstein commented if the rebalancing policy has already been adopted, this is a very good standard vehicle to fund the cash requirements. However, in the case rebalancing is needed and is taking movement, the Board might want to take cash from somebody they are rebalancing from anyway, rather than the Merrill Lynch vehicle. She suggested there be an authority to look at this when necessary to avoid multiple movements. Ms. Bhatia stated she and Ms. Bernstein discussed this issue and this would be for the regular procedure because there needs to be a source to replenish the cash to fund benefits. She stated when rebalancing is needed then another resolution can be brought forth or a motion could be made right now. Mr. Deaton inquired when the rebalancing comes back, would where the cash is going and where it is coming from be included in the action. Ms. Bernstein responded in the affirmative, but suggested including the cash allocation in the rebalancing. President Romero inquired if this would come before the Board before it would be acted upon. Ms. Bernstein responded in the affirmative.

Commissioner McCallum moved approval of Resolution 05-83. Seconded by Mr. Deaton and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, McCallum and Deaton

Nays: None

13. Report on Organization Setup of Other Pension Plans Relative to Security and Use of Temporary Positions – Discussion and Possible Action

President Romero indicated the security of the Retirement Office was an issue he originally brought before the Board. He expressed his opinion that due to the sensitivity of the private documents, student workers, although a good asset to DWP, should not be utilized in the Retirement Office.

Ms. Bhatia noted at the last meeting, the Board acted to proceed with the installation of a card reader system, which staff is moving forward on. In addition, staff was requested to see how other pension plans utilize part-time workers. She reported the other pension plans employ relief retirement workers instead of student workers. Ms. Bhatia stated staff researched what kind of work these part-time workers perform and found they work in the call center and have access to databases as well as member files. She

added this was generally the kind of work student workers perform, along with filing, and the nature of the work is confidential. Ms. Bhatia stated staff researched further on the process of placing student workers and found they are screened by the program director of the Youth Services Academy (YSA) program. She added they also found that student workers are employed in the Medical Office, Human Resources Office, and Health Plans Office at DWP. She stated the Board could make a motion not to use student workers in the Retirement Office. However, there are two student workers that are under close supervision and are a great help on tasks that do not necessarily merit hiring a full-time employee. President Romero recognized the value student workers add to staff, but expressed he is still concerned about the sensitive information they handle.

Mr. Deaton inquired how much the difference in pay is between using a relief retirement worker and a student worker. Ms. Bhatia responded it was about the same. Ms. Calvache stated that the YSA pays students minimum wage. She also commented in the Medical Office there are no names on the files, which keeps the information confidential. President Romero commented he was not suggesting eliminating the program completely because there are other offices in DWP where the student workers could be utilized.

Mr. Canzano noted there were no copies of the files and records kept in the file room. He expressed his opinion that the issue of the student workers could be revisited if there becomes a solid backup of the documents in case they are misfiled.

President Romero inquired if staff was still working on getting the files scanned. Ms. Bhatia responded she would be presenting the Board with a report regarding the Disaster Recovery Project under Retirement Plan Manager's comments.

14. Retirement Plan Manager's Comments

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

Ms. Bhatia reported the Board had already received a copy of the May 1, 2005 Newsletter for DWP retirees.

b) Status Report on Disaster Recovery Project

Ms. Bhatia reported the Disaster Recovery Project is an initiative begun by DWP, and the Retirement Office is one of the first to participate. She indicated the equipment for the project came from the Water System. Ms. Bhatia reported the Retirement Office has run into some issues as far as progress. She stated the Retirement Office was approved to hire three temporary clerical staff, but there is still one remaining vacant position with the term expiring in July. Ms. Bhatia reported there have been issues concerning the technical problems in connection with the equipment. She informed the Board a decision needs to be made on whether to continue in this particular scope of the project, which is basically scanning the beneficiary forms as well as the other important forms in any employee's file or whether to discontinue in July when this person's terms is over and wait until the Retirement Board decides which direction to

proceed. President Romero stated, in his discussion with IT, their staff indicated they are capable of integrating any scanning programs. Therefore, staff needs to maintain their momentum.

Ms. Bhatia reported there were 18,000 files to begin with and so far 2,800 have been scanned. Mr. Vazquez noted when this issue first came before the Board, the option of outsourcing was considered as opposed to doing it in-house. He stated the project probably would have already been completed if it were outsourced.

c) General Items

RETIREE BOARD MEMBER APPOINTMENT

President Romero inquired about the status of the Retiree Board Member appointment. Ms. Bhatia responded the applications were received and submitted to the secretary of the Board of Water and Power Commissioners. She stated the next step is for the committee to interview the applicants. Mr. Vazquez reported the secretary of the Board of Water and Power Commissioners sent out five applications that were received. He also stated he emailed Commissioner McCallum and the President of the Retiree Association requesting their input. Mr. Vazquez indicated the interviews will be scheduled in time for the second Board of Water and Power Commissioners meeting in June.

RETIREMENT PLAN MANAGER AND ASSISTANT PLAN MANAGERS

President Romero requested an update on the Retirement Plan Manager exams and the hiring of Assistant Plan Managers in the Retirement Office. Ms. Bhatia stated a bulletin was issued to hire two Assistant Plan Managers on a temporary basis and their has been a lot of interest shown. She stated she intended to schedule interviews for that position the following week. Ms. Bhatia stated, with regards to the exam for the Retirement Plan Manager and Assistant Plan Manager, she has been told it is on the fast track but had not been rescheduled.

AUTOMATED COMPUTERIZATION IN THE RETIREMENT OFFICE

Ms. Calvache inquired if anything had transpired since Pension Gold and ITS's presentation at the last Board meeting, and did ITS still need to revamp RAP II. Ms. Bhatia responded the work concerning RAP II was stopped a long time ago. She stated she met with Cecelia Weldon (ITS) to coordinate the information that will be provided to the Board at the June Board meeting. Mr. Deaton inquired if at the June Board meeting a decision will be made on whether to keep it in-house or hire an outside contractor. Ms. Bhatia responded she expects that the information that will be provided will give some kind of comparison in the three areas of scope, cost, and time. She stated both Pension Gold and ITS will speak on whether their system will encompass all the systems within the Retirement Office. Ms. Bhatia indicated at the next Board meeting the Board will need to decide whether to go with an RFP or build a system in-house through ITS. President Romero inquired if there were other major players besides Pension Gold.

Alex Leonard of Mellon Bank approached the podium.

President Romero recognized Mr. Leonard.

Mr. Leonard indicated he looked into this issue further at Mr. Rue's request. He stated Mellon has very limited experience in working with Pension Gold. However, one of the clients Mellon looked at (Houston Fire and Police) was utilizing Pension Gold but ended up abandoning the project due to Pension Gold being one of the most expensive providers. Mr. Leonard returned to the audience.

15. Future agenda items

The Board meeting was adjourned at 9:58 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary