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

MINUTES – July 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	Commissioner

Others Present:

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

President Romero called the meeting to order at 8:40 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

PUBLIC COMMENTS

Ms. Bhatia indicated a quorum of the Board was present.
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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 May 18, 2005 (Special Board Meeting)**
2. **Termination from Monthly Rolls as of June 2005:
Retirement Resolution for June 2005**

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 Moore
Nays: None

3. Report of Payment Authorizations as of July 2005
4. Notice of Deaths for June 2005
5. Report on Status of Insurance
6. Investment Summary as of June 30, 2005
7. Market Value of the Retirement, Death & Disability Funds as of June 30, 2005

President Romero reported items 3 through 7 were submitted as having been received and filed.

President Romero referred to Item 3, Payment Authorizations, page 3.77, and asked whether the bolded word "Additional" referred to additional contributions. Ms. Bhatia replied in the affirmative. He also asked if, on page 3.81, Moore Wallace was a contractor. She again replied in the affirmative, stating staff received the forms from Mr. Wallace for the 1099s.

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

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

8. Investment Manager Presentations

a) Fred Alger Management, Inc.

Messrs. L. Charles "Duke" Meythaler, and Zachary Karabell, Senior Vice Presidents, from Fred Alger Management, Inc., approached the table.

President Romero recognized the representatives of Fred Alger Management.

Mr. Meythaler gave an introduction on Fred Alger's approach to the Growth Equity Style for U.S. Equities.
Mr. Deaton arrived at the Board meeting at approximately 9:40 a.m.

Mr. Vazquez made an inquiry on the "net of fees" return. Mr. Meythaler responded that the net of fees was 218 versus the benchmark of 21 basis points – so it is about 200 basis points annualized net of fees over our benchmark.

Mr. Meythaler then turned the presentation over to Mr. Karabell, the Chief Economist for Fred Alger.

Mr. Meythaler proceeded to go over what is currently happening in the markets, how Fred Alger manages the money, their outlook, and what they are doing in the portfolio today.

President Romero noted they were underweighted in information technology, industrials, and consumer staples compared to the Russell 1000 and inquired if their comment on underweighting in semi-conductors was to be more in line with the Russell 1000 and inquired as to Fred Alger's thought process behind this approach. Mr. Karabell responded that their first line of process is what comes from the analysts – what is stock-specific in their sectors. Semi-conductors are a reflection of an analyst who does not have conviction in the fundamentals in these names, at least not at this point in time. He stated that there had been a market call earlier that consumer staples ought to be doing well, given the interest rate, but they have lagged. Mr. Karabell continued, other than CVS, which he was not sure was even classified as a staple, their analyst felt uncomfortable with the stock dynamics, even though the company has been doing well. He stated that it would be hard to find a company as good as Proctor and Gamble, which is an innovation in management; but if you look at the stock, it really has not moved in the past 8 or 9 months. He continued that this was because their analyst has not been able to generate a lot of long-time enthusiasm for the stock fundamental right now. Mr. Karabell stated that information technology is both a sector issue and a reflection of where their analysts are. He continued, industrials are more a bit of a hodge-podge and it is hard to make a sector call. He further explained that some people do a screen on how industrials track to the GDP or how they track to an interest-rate environment, but that is not how Fred Alger invests. He stated that it is much more of a stock-picking, bottoms-up environment within the industrial space.

Mr. Vazquez referred to pages 3.8 and 3.9 – Portfolio Holdings. He asked about the recent turnover rate on their portfolio. Mr. Meythaler responded that it is about 150 per cent on an annualized basis. Mr. Karabell continued, stating that market turnover has been higher and noted that they have been about where they have always been relative to market turnover. He stated they have a somewhat higher turnover than the Dow and lower turnover than the NASDAQ. Mr. Vazquez questioned how long before they sell, they hold the stocks that were not doing well, such as Microsoft, E-Bay, and Avon. Mr. Karabell stated that this was again an analyst call based on whether the thesis changes, e.g., Avon is doing very well globally, but it was not doing better in the U.S. changing its business plan, and will need to spend "X" in order to generate a higher margin in earnings. He noted Avon has raised some real questions on the viability of that company. He further explained, when that happens, it becomes difficult to hold the stock because the essential thesis has changed. Price movement alone does not lead to a sell. He added, if a company is falling short for this quarter due to some unforeseen cause, or it did not meet revenues, but the overall trajectory remains in place that could be as much a reason to buy or hold as anything else. He continued, E-Bay is a difficult one because it shows up quite negatively in the portfolio in recent attributions because of a significant pull-back in January; but overall, both in terms of the portfolio and the history of investments, they have been right on E-Bay more than wrong. He stated it may have reached an inevitable maturing phase of growth which has led them to trim that position because the cost has to be justified by the amount that it can grow. Mr. Vazquez asked what was the longest held stock in this portfolio. Mr. Karabell responded he did not know. Mr. Meythaler added he would get that information.

The representatives of Fred Alger Management thanked the Board and left the meeting.

b) Intech

Mr. Russell Bjorkman, Vice President of the Portfolio Management Group of Intech, approached the table.

President Romero recognized the representative from Intech.

Mr. Bjorkman presented the Board with an overview of the domestic equity mandate actively managed against the benchmark Russell 1000.

Mr. Vazquez inquired as to the net-of-fees return. Mr. Bjorkman responded, 2.48 on this quarter. He added they could note the net-of-fees if the Board would like. Mr. Vazquez stated that he would like to see both gross and net. Mr. Bjorkman responded that Intech would comply.

Mr. Moore inquired, when they spoke about size, were they referring to the size of the portfolio itself. Mr. Bjorkman responded that he was referring to the capital flow amongst companies. He then asked the Board to refer to page 29 in the handout presentation, pointing out there are time periods throughout history where capital will flow into very large companies and there are times it will spread out among the smaller companies. Mr. Bjorkman reported March of 2000 was the greatest capital concentration in the history of financial markets in the U.S., to the point that about 60% of the capital was in 10% of the names in the S&P 500. He then explained how to read the chart.

Mr. Moore referenced page 30 and noted it looks like it shows two different funds. He requested an explanation differentiating between the "Broad Large Cap Growth" and the "Large Cap Growth. Mr. Bjorkman responded that the Broad Large Cap is the Russell 1000 and the Large Cap is the S&P 500. Mr. Bjorkman expressed there is never a perfect way to name things, but in "our" world; "Large" is S&P and "Broad" is the Russell.

President Romero asked if there was a method to measure opportunity, or a rule of thumb. Mr. Bjorkman replied, within the trading process, this is reflected by the execution component. He added, the opportunity is the difference between the decision and the impact of the execution to the price. He continued he believes that is where most people define the opportunity -- it is the actual execution. Mr. Bjorkman stated, in Intech's approach, they trade a lot of securities, but when compared to the average daily volume, it is actually low. He explained, if you trade 25, 50, 100% of the average daily volume in a particular security, your market execution impact is going to be expensive. He reported Intech's percentage daily trade volume is typically less than 15% and while they have a few names that are right around 15%, they also have a handful of names that are around 10% of the average daily volume, He added they quickly reduce this down to less than 1%, so the market impact is negligible. He noted these are all large, liquid securities and this is how they get to the 15 basis point number being very favorable and not creating too much of a drag on the portfolio.

President Romero inquired if any of their clients ever ask for copies of trade tickets. Mr. Bjorkman responded that they supply every trade ticket. Ms. Bhatia added trade tickets are received from all our managers.

Mr. Moore questioned Mr. Bjorkman on Intech's process of maintaining a long-term information ratio above one. He asked what their information ratio has been historically. Mr. Bjorkman replied, a little bit north of one.

Mr. Moore noted Intech has sustained their long-range goal and asked what they were doing that is different. Mr. Bjorkman referred the Board to page 25, and explained to the Board the actual process Intech goes through to build portfolios.

Mr. Moore requested more information on the research Intech is doing on the market neutral long/short strategy. Mr. Bjorkan responded that it is along the lines of interest in real returns and hedge funds applications and it would be a new product. He added, there is not currently an interest in new products; but Intech has much more of a focus in making their current products better.

President Romero requested Mr. Bjorkman speak to the Board on Intech's outstanding insurance issues.

Mr. Bjorkman responded there were two areas that came about after the actual contract was signed in March of 2004. He stated the addendum on the waiver of subrogation that appeared in January 2005 was not part of the original contract. He explained there were two pieces of the insurance puzzle -- one, the waiver of subrogation on the Professional Liability component and the other, deductibility. Mr. Bjorkman continued stating they have increased the level of the discussion between Intech, Janus, and Avery Neaman from Risk Management. He indicated their primary carrier is Zurich and they had hoped Zurich would agree to a waiver of subrogation on the professional liability. However, Zurich has very recently refused the waiver of subrogation on the professional liability and Intech is pursuing getting a separate, stand-alone policy. He added there is a time issue because they are clearly linked to the Janus policy and it is not a simple matter for Intech to pull out individually or to just insure WPERP. Mr. Bjorkman explained there is a huge underwriting process involved. He stated they have over 330 institutional account relationships and have never been asked for a waiver of subrogation. He also noted that it is not a normal part of the investment management business. Mr. Bjorkman stated in the contract there is no specification of deductibility; adding, Intech's deductible is $3 million and WPERP has asked for a $500 - $1,000 deductible, which is extraordinarily low. Intech has over a half a billion dollars in cash and had requested Mr. Neaman consider a variety of different ways Intech can answer the deductibility issue. Intech has also recently asked Risk Management to consider a letter of credit Intech would provide that would address the subrogation issue until they can find another answer. Mr. Bjorkman stated the difficulty is they have a single limit combined liability coverage of $50 million, adding Intech would also be willing to do a $10 million individual letter of credit for the subrogation. Mr. Bjorkman stated there is a huge cost difference between the $10 and $50 million and a combined $50 million or a $10 million separate – one can clearly argue that a $10 million separate is worth much more than a combined 50.

President Romero provided an update to the new Board Members regarding issues in connection with insurance requirements. He reminded the Board Members these requirements were included in the RFP, inclusive of the waiver of subrogation. He stated selection of firms interviewed was contingent upon their ability to comply with these insurance requirements adding only those firms stating they could comply were interviewed. President Romero asked Sara Bernstein from PCA for confirmation. Ms. Bernstein concurred.

9. Presentation by PCA – Real Estate Education Investment Policy and Strategy Proposal

Ms. Sarah Bernstein and Ms. Pamela Alsterlind, Principals at Pension Consulting Alliance (PCA) approached the Board table.

President Romero recognized the representatives from PCA.

Ms. Alsterlind referenced the educational seminar, which was presented to the Board in September of last year. She continued with a presentation on implementation stating today she wanted to get feedback from the Board on the drafting of policy in order to finalize the policy and focus on the strategic plan. She added there were certain assumptions made in developing the draft policy -- a 4% allocation to real estate and the Board would like to retain approval rights on the real estate investments.

Ms. Alsterlind stated, in the market place there are three different ways to implement a real estate program for our structure; direct, third-party manager, and outsourcing. She added the direct approach is where the pension fund does everything internally which does not apply since the Plan has hired a consultant. Mr. Alsterlind continued stating the third-party approach is where outside advisors, are hired to actually execute and oversee the Plan's real estate strategy while being monitored by a consultant. She stated outsourcing is generally used by smaller plans when they do not have a real estate staff and just completely outsource the program to the consultant. She noted that today the focus would be on the third-party approach.

Mr. Vazquez questioned the phrase "limited staff required for plans with a $250 million allocation." Ms. Alsterlind explained, in their experience, other plans have a Chief Investment Officer on staff who is available to talk through day-to-day issues as well as having 1 – 1.5 real estate staff available. She stated she realizes WPERP has limited staff available, and the bulk of the burden will fall to PCA, working directly with the Board, with staff's assistance.

Ms. Alsterlind inquired if she was correct in her assumption that the Board wants to retain their discretion to approve all real estate investments. President Romero answered in the affirmative; adding, as this is a new asset class, the Board needs to be involved.

Ms. Alsterlind continued stating the Board retains discretion, hires the consultant, and will approve investment firms and strategies the consultant brings forward to the Board, with staff in an "assisting role." She stated PCA is here to give the Board strategic advice, go through the selection process, construct the deals, and monitor them once the Board approves the investments. Mr. Moore clarified that "the consultant" meant PCA. Ms. Alsterlind replied in the affirmative, adding the Investment Managers are the firms. Mr. Moore asked if they will be comingled funds or fund-of-funds. Ms. Alsterlind replied, based on the size of 4%, we are looking at about $250 million. She stated PCA is predisposed to a comingled fund, which does not preclude talking about other options adding this is to get maximum diversification. Ms. Alsterlind noted this is where PCA sees WPERP investing right now.

Ms. Alsterlind discussed responsibilities and roles. She noted there are four key areas: one, establishing the program's objectives and policies, viewing the Board as having the primary responsibility with PCA providing guidance and staff assisting; two, constructing the portfolio framework which involves developing the strategic plan (tentatively scheduled for September) with PCA providing guidance and staff assisting; three, manager selection adding PCA will be looking for opportunities. She noted PCA sifts through 100 plus deals a year to look for the "fits", depending on what the strategy will be for the Plan. Ms. Alsterlind stated PCA sees this as their primary responsibility, with staff approving, and the Board having final approval; and four, monitoring the program once the Plan has made commitments and the dollars are invested. Ms. Alsterlind asked the Board if the presentation she just outlined met with the Board's approval. President Romero asked for clarification inquiring if what Ms. Alsterlind had just outlined was different from how the Board has been selecting the existing managers. She replied in the affirmative adding, with real estate, particularly with a commingled fund, different opportunities come up at different times noting it is more market-timed. She stated PCA is constantly looking at opportunities and looking at what the sub-strategies are for the Plan. Ms. Alsterlind added PCA would not be bringing in managers once a quarter, but "as the opportunities present themselves." She stated if PCA thinks a specific group is strong, has a great track record, and fits in with our strategy, PCA will want to schedule interviews and bring them before the Board.

In response to President Romero's question on commingled funds, Ms. Alsterlind explained there are two styles of commingled funds, open-ended and close-ended. She stated you commit to close-ended commingled funds and then draw down your money, adding there is a finite life. She continued, open-ended funds are continual – you can put your money in and then there can be a period when you redeem your money, depending on where the market is going and what PCA recommends. Ms. Alsterlind stated PCA is recommending a combination of both open-ended and close-ended commingled funds depending on what strategy is made available. She added these funds are not public, so we will not be rapidly moving in and out of real estate, referencing page 24 of the attachment "A Review of Real Estate Investing". Mr. Deaton noted that the "Manager" and the "Investment Decision" are the same. Ms. Alsterlind agreed noting this is a little different than a separate account. She emphasized it goes to our size and what we are putting into real estate. She noted in a separate account we hire a manager who is buying real estate only for our Plan and we are the one investor in that account. She stated the larger real estate advisors/managers have an account that is about $250 million; adding based on this, PCA does not recommend having just one real estate manager. She noted, conversely, in a commingled fund there are multiple investors, and there are many different funds and strategies, which you would move in and out of as needed. Ms. Alsterlind stated this will take place over a number of years and the Plan will be moving in and out of them over quarters. She noted real estate requires a more long-term view stating it is not as liquid as the public markets. Ms. Alsterlind commented PCA, with staff assisting, is taking the lead in establishing program objectives and policies, and will bring these before the Board for approval.

Ms. Alsterlind spoke to the Board on "Policy" stating that today they would need to decide on program objectives. She reiterated she would like to walk away with a sense of the Board's likes and dislikes and of their risk tolerances. She added PCA will then return with a strategy. Ms. Alsterlind stated, in constructing a portfolio framework, PCA will look to have a strategy and will also address a projected funding schedule over a one to three year period adding this will be decided at WPERP's September meeting. She noted selecting the managers will be a continuous process for PCA, explaining that every two weeks PCA's real estate staff meet to discuss potential investors to get to the top quartile managers. Ms. Alsterlind noted, once the Plan gets invested, they will perform routine performance monitoring on a semi-annual basis, although PCA usually prepares their report quarterly. She stated real estate typically is not reported monthly, but quarterly, adding PCA is flexible on how often the Board would like to see real estate information. Ms. Alsterlind commented her understanding is the Plan's allocation for real estate is 4% and will be a separate real estate asset class with the primary objective being diversification and secondarily, returns. She noted this is similar to private equity. Ms. Alsterlind added PCA understands the Plans' purpose is meeting the long term actuarial targets, strong returns, and meeting the plus 4% goal, adding that meeting this goal will take 3 – 5 years.

Ms. Alsterlind stated she needed the most feedback in the program strategy area. She directed the Board to page 3, Portfolio Composition. She noted they break it into three major buckets - core, value added, and opportunistic. Ms. Alsterlind explained core is viewed as your stabilized operating properties out in the market, e.g., apartment buildings, downtown office buildings, retail centers, etc. This provides you with your stable income and some appreciation over time. She added there is limited debt, maybe up to 40%, and that is ratcheted up over the years noting core commingled funds focus on stabilized properties in the United States and will also have the lower returns.

Mr. Moore responded to an earlier question from PCA asking the Board if they wanted to look at this as an alternative investment, 4%, etc., or does the Board want to look at it as "vehicles" - part of a broader portfolio management. He stated he is now more open then he was initially, when the Board first became involved, to the idea of looking, for instance, at the core triple net, lease type of properties that are low risk, income focused vehicles. He added he would be interested in looking at this in the future, because if they are decent income vehicles, he would look into vehicles that could be used as a substitute for the debt that we are investing in now.

Ms. Bernstein then asked the Board to turn to page 16, reflecting risk vs. return with core being more stable and less risky and value-added which Ms. Alsterlind will be discussing. She noted value added are a little more, "middle-of-the-road" in risk and return than the opportunistic fund, which is at the higher risk end of the scale.

Ms. Alsterlind asked the Board to turn to page 18, which shows some of the characteristics of value-added strategy. She gave some examples of value added strategy opportunities like redevelopment.

Ms. Alsterlind noted, in summary, with core you have the near-term, steady income when you invest, then some appreciation. She stated in value-added you start to receive about 50% from income and about 50% from appreciation after the properties are redeveloped.

Ms. Alsterlind continued, the last area, which is very high risk, is opportunistic. She would equate this with what the Plan is planning to do in private equity. Ms. Alsterlind stated an example of opportunistic is the international opportunities in distressed debt. President Romero stated this is not the way the Board wants to go. He inquired if it was conceivable to have a core and a value strategy. Ms. Alsterlind responded in the affirmative. She added this is the policy PCA was proposing. She noted that PCA looks at the policy as a long-term, living document and gives some parameters that, depending on what the market is doing and what the Board is looking at 2 years from now, gives the flexibility to go into that area, noting that it is the strategic plan that will set the targets.

Mr. Moore stated that he would like to have a better sense of the risks they are talking about before the Board rules out opportunistic. He continued, based on what he had been shown thus far, he would not want to rule it out as a piece of the Plan's portfolio.

Mr. Deaton suggested, 75% core, 25% in value-added and zero in opportunistic until we have had more experience. He stated, the Plan needs to be relatively conservative in the beginning. Mr. Moore replied that he was not necessarily disagreeing with this, but does not have a feel for how big the risk is, given that he has not yet seen any numbers. Mr. Deaton suggested the Board look at page 20. Ms. Alsterlind gave the Board examples of both opportunistic and value-added funds. She stated what she was presenting to the Board were just examples adding every time PCA does due diligence and brings a group to them, they will be presenting a full 15 – 20 page report which will summarize everything for them.

Mr. Deaton inquired if PCA would look at funds which matched against the percentage allocated and bring investments with those characteristics. Ms. Alsterlind replied in the affirmative. She added what she is hearing today, is that the Board is interested in core and value-added, probably heavier on the core side. For the short term, at least the next two to three years, they would not invest in opportunistic funds.

Mr. Romero inquired if PCA would need the percentages at this point. Ms. Alsterlind replied PCA will come back in September with the suggested allocation ranges based on the feedback given by the Board today noting the Board prefers domestic as opposed to international. Ms. Alsterlind stated in September they will talk more about the market strategy, adding it will be a little slow going because right now, domestic core is off the charts, the cap rates are very low, and there is a lot of money streaming into it noting that it is very expensive. She stated the focus will probably be more on some of the value-added strategies and it would be best to wait out core for a while. She added the pricing is unbelievable noting, for CALPERS and CALSTERS, evaluations as of June 30th are 20 plus percent over last year's appraisals adding PCA will be very cautious about which core funds to put the Plan into taking into account that we will be staying in them for 5-7 years.

Ms. Alsterlind again inquired if the Board wanted to strike opportunistic from the whole policy. The Board replied in the affirmative.

Ms. Alsterlind went on to review Investment Guidelines – inquiring of the Board how much leverage they wanted present in the portfolio through these funds. She stated taking out opportunistic will drop the leverage down quite a bit, but noted that when PCA comes back with allocation ranges they can come back with suggested leverage limits that line up with those ranges. Mr. Deaton inquired as to the consequences, if it increases the risks. Ms. Alsterlind replied that it makes the return more volatile, but noted that they do have limits in core and in value-added, and if you set your allocation ranges for those strategies, you get to a mathematical area on target. She feels it would be at 50% or below depending on the ranges we come up with.

Mr. Romero asked for PCA's recommendation. Ms. Alsterlind responded she would first like to look at some numbers, but suggested core at 50 – 80% and value-added as the balance. She stated, with a lot of the funds now being able to go up to 40%, there needs to be a cushion, so it will probably be more of a limit of 50 adding you will not get to that 50 until you are "fully maxed" on your value-added. Mr. Deaton inquired what the numbers were in value-added. Ms. Alsterlind replied, 40 –70%. She continued stating leverage is a key area with the assumption being that the Plan would be looking at commingled funds, which is the easiest way to get diversification. Ms. Alsterlind stated in value-added and core strategies, the funds are typically going to own the real estate outright or go into joint ventures with the developer. She noted this is listed under "investment types" in the presentation materials. Ms. Alsterlind stressed diversification stating PCA does not feel the Board wants to have just one firm doing all of the real estate investing. She stated PCA has set a target of 40%, which means we have at least two or three managers. Ms. Alsterlind added rarely do any of their clients get to that high. Mr. Moore inquired if, when the allocation ranges are initially being set, were they really looking at more like 20% and if we wanted to double up some time down the road, you have that freedom. Ms. Alsterlind replied yes, that this gives us more flexibility. She noted she looks at the policy as broad based, and the strategy as more specific.

Ms. Alsterlind began to discuss geography, noting that if we are doing core and value-added, this is mostly domestic. She inquired if the Board wanted to strike out international altogether. Board Members replied in the affirmative. She stated a year or two from now, if PCA sees a great opportunity they are putting other clients in, it can again be brought forward to the Board. Ms. Alsterlind added that we can also test the waters through the annual strategy planning session. She continued, PCA has also set a limit on investment size into any one fund, which forces a little more diversification. This insures, "we don't make too big of a bet into one fund." Ms. Alsterlind noted this is similar to private equity adding PCA will bring the deals to the Board for approval. She stated if the Board desires, they can request presentations from all the managers. She stated she assumes, in the beginning, the Board may want to interview all the managers, but over a two to three-year period, depending on how they are working out, the Board may just want to see the reports.

Mr. Canzano inquired, under the heading, "Dollar Cost Average," what type of time frame is PCA projecting and did dollar costs averaging refer to real estate investments. Ms. Alsterlind responded, 3 – 5 years adding it goes to what is going to be available, how heated core is going to stay, and when they can get us into different deals. She noted reviewing funds is very similar to reviewing the private partnerships in the private equity.

Ms. Alsterlind inquired if the Board had any additional questions. President Romero responded no, as long as PCA goes with the general feeling of what the Board wants. President Romero added he wanted to look over the draft policy a little more. He believes PCA needs to work more with the Board on what they are comfortable with and the duties and responsibilities of staff and bring back the policy to another meeting. Mr. Moore asked if PCA would like to edit the document first, then give the Board another draft. Ms. Alsterlind replied in the affirmative adding she would take out all the opportunistic information and give the Board a black line. President Romero responded that PCA should direct the revised policy to staff. Ms. Alsterlind inquired what the Board would like to see in September. Ms. Bernstein stated that she believes PCA should bring the policy back to the Board for final approval and bring a draft strategic plan for the Board to discuss adding, the market overview can be a subsequent discussion. Ms. Alsterlind added PCA will probably touch on the market because it will be needed to set the strategic plan. She stated PCA will tell the Board what they think they should do over the next few years noting that this is driven by what is going on in the market place. Mr. Deaton responded that the examples were helpful.

10. Transmittal of Proposed Plan Amendment to the Board of Water and Power Commissioners to permit members who have at least 30 (thirty) years of service as of September 30, 2005, to retire with an unreduced retirement allowance from October 1, 2005 through January 1, 2006

Ms. Bhatia reported the amendment permits plan members who qualify as they currently do, through September 30, 2005, to extend their retirement date from October 1, 2005 through January 1, 2006, with the condition that December 31, 2005 is their last date of employment. Mr. Deaton added the way the MOU ends, there is a transition problem, and this just states that if you are eligible as of September 30, 2005, you have until November 1st to file with the Department for retirement as of January 1, 2006.

Ms. Bhatia stated Board Members were provided another copy of the resolution, which has been approved as to form and legality by the City Attorney's Office. She noted there is no change in the resolution in the package except the second paragraph in the resolution is now the third paragraph. President Romero noted there is no resolution number until it comes back from the Board of Commissioners. Ms. Bhatia replied in the affirmative. Upon a question from Ms. Calvache, Ms. Bhatia clarified that the order of the second and third paragraph was switched.

Mr. Moore moved approval of the transmittal of the proposed plan amendment to the Board of Water and Power Commissioners to permit members who have at least thirty years of service as of September 30, 2005 and have attained the age of 50 on or before September 30, 2005, to retire with an unreduced retirement allowance from October 1, 2005 through January 1, 2006. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

11. Discussion of Insurance Requirement – Presentation by PCA and Risk Management

Ms. Sarah Bernstein and Ms. Pamela Alsterlind, Principals at Pension Consulting Alliance (PCA) and Mr. Avery Neaman from the Risk Management Section of the Department of Water and Power approached the Board table.

Ms. Bernstein stated, due to issues regarding insurance requirements, Mr. Vazquez requested PCA review current requirements and put forward a recommendation on proposed changes. She referenced the current policy, which was summarized in the memo in the Board package. Ms. Bernstein noted each time PCA brought a public funds search before the Board, they brought the top ten candidates, but what is listed in the memo are the number of candidates who did not meet the Plan's requirements and dropped from consideration. She continued, even out of the top ten candidates, some of them said they could meet all the insurance requirements, but later staff ran into problems because there were problems meeting our requirements. Ms. Bernstein stated PCA's fundamental feeling is the insurance requirements should not be a constraint and recommended the Plan be within the "norm" and not be more onerous than the norm of other large public plans similar to WPERP, adding there is no published standard requirements. Ms. Bernstein commented they also looked at other large public plans, which have fairly minimal requirements. She noted, of the seven reviewed, Kansas was the only one where this issue has even come to the level of Board attention. Ms. Bernstein commented, in most cases, insurance is simply not an issue that demands the time of the Board; it is something staff handles. Ms. Bernstein explained that PCA feels, due to WPERP's higher insurance standards, we are missing out on a number of quality investment managers that other plans have the opportunity to go into. She reiterated that PCA recommends that WPERP come somewhere within the norm with regard to insurance requirements. Ms. Bernstein noted, in a previous Board meeting, Mr. Vazquez suggested a tiered approach in an attempt to scale the amount of insurance to various risk issues. Ms. Bernstein pointed out PCA, not being legal or insurance experts, are looking at this issue from an overall business point of view. She commented Mr. Neaman's revised recommendation is much more in line with what is out there now, but it is still a little complex and high on professional liability requirements. Ms. Bernstein noted, in PCA's point of view, this does not benefit the overall Plan stating we are looking at diversifying the Plan and getting returns, without limiting the number of managers we consider. Ms. Bernstein indicated Mr. Neaman attempted to implement a sophisticated, tiered approach by considering both size of assets handled by a manager as well as types of risks existing in the market. She expressed PCA feels the approach suggested by Mr. Neaman will not be easy to implement. She added, in both private equity and real estate, the limits suggested are very high, noting public securities are quite different than what you find in private equity managers. Ms. Bernstein suggested the Board may want to set some minimum requirements for real estate, both commingled and separate, as well as private equity. She added we do not want to get locked out of the top-tiered firms because we have insurance requirements no other plan has. She explained these standards cannot be a “deal breaker” and lock us out of a lot of opportunities. Ms. Bernstein then turned the presentation over to Mr. Neaman.

Mr. Neaman explained over six months ago Mr. Vazquez, asked him to look into a tiered approach to the insurance requirements issues for investment manager contracts. He stated traditionally there has been a blanket policy, with one set of requirements for all managers regardless of the size or risk of the mandate. He added this was done through the January 2003 RFP. Ms. Neaman stated these requirements are $50 million of professional liability insurance, which is errors and omissions insurance, with a waiver of subrogation in favor of the Department of Water and Power, specifically the Board. He added, requirements for fidelity insurance is $10 million with an additional insured status and/or loss of payee status, and includes requirements for casualty coverages, which are worker’s compensation, general liability, and auto liability at minimum limits of $1 million. He explained he was asked by the Board to look at a tiered approach, which is being presented to the Board for their consideration, adding if the Board feels the limits are too high or too low, changes can be made. Mr. Neaman stated at this time there are no set standards, but he noted that at Water and Power we have spent a lot of time thinking about risks. He added he feels some of the other plans’ approaches to insurance are haphazard, with no thought process to the selection of their insurance limits. He also noted the Department’s professional risk managers assigned to the Plan and the $6 billion of assets, look very carefully at what is at risk and what the rewards are. Mr. Neaman referenced page 11.4 of PCA’s presentation, noting that CalPERS, which is much larger that WPERP, does not have a dedicated risk management staff. He pointed out, in PCA’s memo, under the “Limits Used” column, it shows many of the plans do not seem to be making a conscious business decision as our Plan does. Mr. Neaman pointed out our Plan is setting the standard and noted the Plan is erring on the side of prudence in regards to risk management, which is his recommendation. He commented he did take into consideration the tiered approach, tried to keep it simple, and did look at some other bases to the approach including the size of the firm that is managing the money and total assets under management. He explained they had come down to two bases which the proposal is addressing, referencing page 11.11 of the Board package.

President Romero summarized, Mr. Neaman is recommending having a rating for risk and a rating for size; and based on those two points, determine how much insurance would be required. Mr. Neaman explained on page 11.10 of the Board package there is a summary page showing the two bases -- the mandate on the left and the relative risk of mandate on the right, and noted you would add the two scores to come up with a total score. Mr. Neaman added, for each range of scores, you then have your assigned limits of liability. He noted $30 million professional liability in the maximum category is reduced by $20 million from the blanket requirements the Plan had in January of 2003, and he felt we should keep the waiver of subrogation for the high-risk categories. He continued, for the remaining three, professional liability is at various limits, $10 million, $5 million and $1 million, noting we are using a tiered approach. Mr. Neaman explained a total score less then 13 results in requirements of $1 million both for professional liability and prime.

President Romero thanked Mr. Neaman and asked Mr. Moore to lead the discussion on the presentation.

Mr. Moore responded he had several reactions as he went through the information prepared by both PCA and Mr. Neaman. He stated he was specifically concerned by the chart prepared by PCA on page 11.3, which shows how many managers were eliminated from consideration because of failure to meet the Department's insurance requirements. Mr. Vazquez commented the actual number of managers eliminated is actually higher. Ms. Bernstein agreed, stating this included just the top ten out of each category who could not meet our minimum insurance requirements. She added later many who stated they could comply with our insurance requirements could not.

Mr. Moore stated there was another bigger issue – the length of time we were uninvested in anything but the equivalent of t-bills and commercial paper, which has cost the Plan a lot of money in the last several years. He added, the Board needs to evaluate what the impact is on the fund itself. Mr. Moore continued the requirements should be brought down to the line of what the standards are, to the extent that they are determinable, adding that we should not be up above them. He continued he had some concerns regarding the $30 million and the waiver of subrogation, but he wanted to ask some questions to make sure he understood the issues. He requested Mr. Neaman take the Board through a scenario because he understood the waiver of subrogation ensures the insurer will not come after the client.

Mr. Neaman responded, if an investment manager makes an error or omission that causes the loss of some fund assets, the retirees and active members may bring a claim against the Department of Water and Power alleging that they negligently managed the investment manager. He added "we," the Plan and the Department, could be sued. Mr. Deaton replied the City Attorney would agree that we would have a summary judgment that would state the retiree had no cause of action against the Department because they were not "hurt." Mr. Deaton stated he would like to see examples or data base in the industry that show the levels of $30, $20 or $5 million suggested was appropriate and he would like Mr. Neaman to sit down with the City Attorney to determine "who gets to sue whom" and to what degree does this protect us better.

Mary Jo Curwen, City Attorney, emphasized this was a business decision. She added, we needed to weigh this against the Plan's fiduciary duty to get the maximum out of the investment. Ms. Curwen stated the Department might be concerned about losing money here, but overall, we may be losing a lot more in terms of potential investment opportunities. She reiterated this is a business judgment rather than a legal decision. Ms. Curwen stated, for safety's sake, you may be losing hundreds of millions in investment opportunities but added this was the Board's decision to weigh. Mr. Deaton responded he understood the difference, but questioned the legal issue in regards to waiver of subrogation particularly how this changes our legal status and what does it add for the Department.

Mr. Neaman stated, if the carrier of the investment manager is required to pay the claim on behalf of the Department of Water and Power, the carrier is prohibited from suing the Department of Water and Power to recover the monies that they paid on behalf of the Department. He noted it goes back to errors/omissions made by the investment manager triggering a claim against the Department of Water and Power by alleging that we negligently managed the investment manager and should have had more oversight. Mr. Deaton inquired as to who would sue us. Ms. Neaman replied that it could be the ratepayers, the retirees, or it could be active employees. Again, Mr. Deaton stated retirees would have no cause of action. Mr. Neaman replied the key might be the rate payers; if there is a $500 million dollar loss and the retirees have to be made whole by the defined benefit plan, the plan needs to be reimbursed those monies. Mr. Deaton asked where those monies would come from. Ms. Bhatia replied, from the Department.

President Romero stated he feels these are all valid questions that need more thought. He noted some managers did get “weeded out,” but feels the Plan still has a very good pool of candidates who were all interviewed based on their historical performance, adding they met the insurance requirements. President Romero continued noting, just because some top-tiered managers did not get interviewed, that does not mean tomorrow they are still going be top-tiered managers. He observed, a manager in the top quartile today could be in the bottom quartile tomorrow. Mr. Deaton stated by restricting the pool of people from which we obtain the managers who are investing money and reducing our rate of return, the rate payers have an equally strong legal case against us as well. He stated, if we are doing things to restrict our return on investments, whether it is hiring people who are “crooks” or setting up requirements that preclude very good people, it is still a business decision.

Mr. Neaman affirmed, at the present time, we have an excellent array of investment managers and they are all doing great work for us. He added they have all complied with the $50 million of errors and omissions insurance with only two firms having to get additional coverage. Mr. Neaman stated most firms carry a lot more coverage, noting Merrill Lynch is self-insured above $25 million and also provided a Letter of Credit for the additional $25 million. He added we decided as a group to reduce the limits for Earnest Partners to $15 million. He commented the other managers have the $50 million with many having more than that, and with one up to $600 million, adding that he does not believe, with the exception of those two firms, that the limits of liability have ever been an issue. Mr. Neaman concurred there are issues with the waiver of subrogation, but 15 of the 16 existing managers to date have provided that, from many more than 16 insurance companies because many of them have tiered structures in their professional liability program. Mr. Neaman noted the existing 15 managers have more than adequate limits and have provided the waiver of subrogation.

Mr. Neaman concluded stating this was for the Board’s consideration only, and he would be happy to work with Ms. Bhatia and the Plan staff to make any revisions necessary to bring the procedure to something the Board feels comfortable with. Mr. Moore asked for clarification on the information the Board is requesting. President Romero added Mr. Deaton asked for clarification on the waiver of subrogation. President Romero stated he agreed that Alternatives and Real Estate should probably have a separate tiered program as opposed to core and noted this is something the Board needs to look into. Mr. Neaman responded this is covered because they have developed a minimum/maximum approach to the Alternative Investment groups, which is covered on page 11.14 of the Board package. He explained, on Ms. Bernstein and Mr. Rozankski’s recommendation, it was decided that this was the beneficial approach for these types of risks where the service providers do not carry higher limits of liability.

He added, for Real Estate, a maximum of $10 million on professional liability, a maximum of $20 million on crime, right down to $1 million on Alternatives. President Romero replied that he does not feel this is unrealistic but thinks the waiver of subrogation is probably an issue that will need to be discussed further.

Mr. Vazquez stated he would like to see the Board determine some parameters, which should not be outside the highest parameters we have been able to identify. He commented it does not make sense for the Plan to be the only plan, or this client to be the only client, of a number of managers that have standards they cannot comply with which either eliminate them from consideration or cause them to have to go out and spend additional money to meet our standards. Mr. Vazquez continued he would like WPERP to set the standard for the industry, but set it at some reasonable threshold based on what other pension plans are requiring. He added, if a manager offers more, then we should take it, but we should also set minimum standards, adding these standards should not preclude selecting from the best management pool available. Mr. Vazquez stated he would like the Board to adopt a policy and implement it on a current basis so that we do not have these problems with our existing managers or when we look to replace a manager. He noted Ms. Bernstein stated she believes the recommended draft policy could still use some adjusting, both in simplicity and in the required dollar levels. Mr. Vazquez stated he would like PCA and our Risk Manager to continue to work together to see if they can come up with something that addresses PCA's issues with simplicity and addresses the Department's need to have good protection, perhaps the best in the industry, but not more than anyone else.

Mr. Canzano referred to page 11.3, noting the listing of "Yes" and "Nos." He acknowledged all the work Mr. Neaman did and asked if we were to apply his recommendation, how would it affect this listing. Ms. Bernstein replied she did not have the answer to this, stating that this was taken from the RFP with the policy standards at that time. Ms. Bhatia added that staff did look at Mr. Neaman's recommendation and used his formula for the current managers stating all except one of the current managers met the $20 million coverage using this criteria. Mr. Canzano replied his concern was that we do not want to unduly limit our managers but at the same time we also want to protect ourselves. He stated if Mr. Neaman is making a proposal that will substantially turn the nos into yeses, it would be an interesting start. Ms. Bernstein agreed, noting that PCA does not have that information and someone would have to go out and interview the 80 or 100 managers that went through the search process and get their standard policy. President Romero noted, of the managers who did not meet our requirements, the primary reason was the waiver of subrogation and the $50 million errors and omissions. He added we should focus on those two items and move forward.

Ms. Calvache concurred stating we do not want to exclude a lot of the money managers. She stated Mr. Neaman, PCA, and staff should come up with a summary in a couple of months. President Romero added this could be presented at a special meeting in mid-September. Mr. Moore inquired to what extent are we going to be pushed on these issues as we start getting into Alternative Investments. Ms. Bernstein replied she feels the Board will have a lot of problems with private equity and real estate with our current requirements. She recommended we do not put out any RFPs or bring any recommendations to the Board until we get our insurance policy finalized. Mr. Vazquez inquired about the standards noted on page 11.14. Ms. Bernstein replied she knows this is a big issue, but stated many of the policy risks in investments are not insurable, even when you have an errors and omission policy. She commented, if someone makes a “wrong bet,” you are going to lose money. You then fire the manager if they do it too many times. Ms. Bernstein continued this is market-based, risk/return management. She noted in the investment business, there are items you are not going to be able to insure. Ms. Bernstein added she does not know of any database that would show how many times legal issues were brought forth, adding fraud is something that can be sued for. She stated if someone makes a big mistake and bet on all the wrong stocks, this is an investment risk that is not insurable. Ms. Bernstein stated management focuses on getting quality managers, carefully monitoring them, and trying to hire the managers who won’t commit fraud and will make good decisions on their investments, putting policies in place so that they stay within those guidelines. She noted these are general areas and believes this is why insurance is not the high, top priority of pension plans and their boards. Ms. Bernstein stated she feels we need to have a policy in place, within the existing standards as far as we can determine them. Ms. Calvache noted LACERS takes whatever the manager has, and asked if LACERS has ever had any problems. Ms. Curwen replied, when discussing this with LACERS’s investment staff, they stated they do not feel that it is likely that they will be taken advantage of and this is not a high priority. Ms. Bernstein added they will take whatever is being offered in the market, getting what every other plan sponsor out there is already getting. She noted their RFPs request their highest insurance level, and they take what the market has already established. Ms. Bernstein noted CALPERS as another example. She stated they have as a minimum $1 million adding they do a lot of investing with emerging managers. Ms. Curwen stated this issue has been discussed at some of the professional conferences she attends. She commented that the thought is, if you demand more insurance than what the standard is, you will pay the cost in higher management fees. She added the reality is you just do not often hear of these policies ever being called or being used so it really gets to be a business decision as to whether the risks really warrant the extra costs.

Ms. Calvache stated at this point they want to be prudent about this. She added that she agrees with President Romero about coming back at a special board meeting to discuss this issue since PCA feels we may run into problems when we get into real estate.

Ms. Alsterlind commented she helped Ms. Bernstein with the survey and a lot of these requirements are really focused on separate accounts. She added the Plan is now moving into the commingled fund world and she is worried that we may have to pass up on some funds. She stated, now that the Plan is going to be investing in commingled funds, she will survey a few and see what their requirements are.

President Romero stated that there is more fact-finding to do and, once we have the information, staff can set up a special meeting.

12. Information on Additional Contributions/Additional Annuity Provision at DWP and LACERS

President Romero stated Mr. Vazquez requested information regarding this matter. Mr. Vazquez commented the Retirement Plan staff and several Board Members had been approached by an employee regarding putting in a program similar to LACERS's Larger Annuity Program. He stated he was interested in what the participation level was. He referred to the staff memo on page 12.1, noting that we have an additional annuity feature in our Plan that allows members to contribute, by payroll deduction, up to 10% of their salary. Mr. Vazquez noted we have only 117 retirees receiving an additional annuity and less than 9% of our active members participate. He continued, LACERS has only 64 active participants in their plan and only 53 retirees, which looks like there is not much of a demand in terms of numbers of employees. Mr. Deaton inquired how the Department's plan is different than the City. Ms. Bhatia responded it is similar, but there are three main differences. First, the manner in which contributions can be made – WPERP is by payroll deduction and LACERS allows lump sum contributions; second, we credit a straight 8% interest rate; at LACERS, it is either the rate earned by the invested assets of the plan or the Treasury rate; and third – the Department has two ways the money can be withdrawn, at retirement or if the person terminates employment; LACERS allows other options such as rollovers. Mr. Deaton inquired if this could be highlighted in the newsletter. Ms. Bhatia replied a feature on additional contributions will be in the next active newsletter. Mr. Moore stated, at 8%, he is surprised more employees do not take advantage of it. Ms. Bhatia responded lately there has been increased interest because it is brought up during the retirement seminars.

Ms. Calvache asked if we had notified the interested employee. Ms. Bhatia replied, at this point, it was just required that staff come back to the Board with the information. She added staff met with the employee and took note of his suggestions. Ms. Bhatia noted there was a lot involved in implementing a program similar to LACERS – it would be considered a change in benefits, would possibly involve a meet-and-confer process and this information was basically in answer to Mr. Vazquez's request.

Mr. Deaton summarized the only beneficial difference between LACERS and our system is LACERS allows "lump sum" contributions. He commented our interest rate is higher at 8%. Ms. Bhatia replied in the affirmative, adding that we also restrict the way money can be withdrawn. She explained the withdrawals are in the form of an annuity and a lump sum withdrawal is permitted only if it amounts to $75.00 or less.

President Romero stated he informed the interested employee this is a meet-and-confer issue and he recommended he go to his labor union and make it part of their agenda.

Mr. Vazquez stated that he would like to withdraw this from the Board's consideration unless it comes through a meet-and-confer process.

13. Retirement Plan Manager's Comments

Ms. Bhatia informed Board Members the Assistant Plan Manager bulletin came out on July 15th and closed on July 28th. Per the bulletin, interviews are planned in September. She stated that we, internally, are pursuing the process of filling positions for Chief Investment Officer and Investment Officer, per the organizational structure that was approved by the Board. Ms. Bhatia added staff is working with Human Relations.

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

b) **Executive Directive 2005-1 – Ethics in Government**

c) **Information on Hedge funds – Articles from the Wall Street Journal and the International Herald Tribune**

14. Future agenda items

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

JAVIER ROMERO President	SANGEETA BHATIA Secretary

IRENE COLON
Recording Secretary