

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

MINUTES – August 17, 2005

Present:

Michael Moore	Retiree Member
Eugene Canzano	Board Member
Ronald Deaton	General Manager
Ron Vazquez	Chief Financial Officer

Absent:

Javier Romero	President
Lilly Calvache	Vice-President
Gerard McCallum II	Commissioner

Others Present:

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

Chairman Canzano called the meeting to order at 8:33 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Ms. Bhatia stated there were no public comments.

Chairman Canzano reported items 1 and 2 were submitted for consent approval as follows:

1. **Approval of Board Minutes:**
 - a) **June 22, 2005 (Regular Board Meeting)**
 - b) **July 6, 2005 (Special Board Meeting)**
2. **Termination from Monthly Rolls as of September 2005:**
 - Retirement Resolution for September 2005**
 - Termination of Gerald B. Smith from the August 2005 Permanent Total Disability Roll – Deceased**
 - Resolution Terminating Theresa A. Bell, Alice M. Giambrone, Geneva Seagers**

and William A. Smith from the August 2005 Survivorship Roll as a result o their deaths

Resolution Terminating the following from the August 2005 Family Death Benefit Roll: Frederick B. Cibiu, deceased; Nayda D. Lakeleh, attained 18 years of age; Fatemeh S. Lakeleh, attained 18 years of age

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

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

- 3. Report of Payment Authorizations as of September 2005**
- 4. Notice of Deaths for July 2005**
- 5. Report on Status of Insurance**
- 6. Investment Summary as of July 31, 2005**
- 7. Market Value of the Retirement, Death & Disability Fund as of July 31, 2005**

Mr. Vazquez referred to the Plan's Summary of Investment Returns as of July 31, 2005, on page 6.2 of the agenda packet. He expressed the information given in the report is great and he would like to see it on a monthly basis. Ms. Bhatia stated staff prepared the report and it would be included in each month's agenda packet. Mr. Vazquez noted, with regards to Merrill Lynch, the inception amount should be changed to add the amount that was funded for Northern Trust.

Mr. Moore indicated he would like to hear PCA's comments in terms of Invesco.

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

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

*****Items 14 through 17 were taken out of order due to a possible limited quorum.**

14. Resolution to place Fidelity Management Trust Company (Fidelity Investments) on Probation Status

Ms. Bhatia reported Fidelity Investments manages the Plan's international developed market mandate under a commingled strategy and was funded in November of last year. She stated recently Fidelity received a Wells Notice from the Securities and Exchange Commission (SEC), which means it is probable that formal charges could be brought against them. Ms. Bhatia informed the Board that PCA has reviewed the issue and is recommending Fidelity be placed on probation and under watch. She added there is a resolution included in the package to do so.

Ms. Bernstein approached the Board table.

Mr. Vazquez commented that the Board did receive an email from Fidelity in a timely manner notifying them of this issue. Ms. Bhatia pointed out that the email was included in the Board package. Ms. Bernstein stated PCA does not think this issue will undermine Fidelity's ability as an investment manager. However, PCA does recommend the firm be placed on watch and probation at this time, and the situation be monitored closely.

Mr. Moore inquired, given the fact Fidelity received a Wells Notice, how widespread does it appear to be and is the major focus of the SEC the lack of supervision. Ms. Bernstein responded she could not speak to the specifics of what the SEC is doing with Fidelity. However, it is a combination of trading and mutual fund issues and not just the lack of supervision.

Mr. Vazquez moved approval of Resolution 06-06. Seconded by Mr. Moore and carried unanimously after the following vote:

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

15. Adoption of Retirement Plan Amendment permitting members age 50 or older with 30 or more years of service as of September 30, 2005 to retire with an unreduced retirement allowance on or before January 1, 2006

Mr. Deaton moved approval of Resolution 06-07. Seconded by Mr. Moore and carried unanimously after the following vote:

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

16. Resolution authorizing the transfer of \$989 million from the Reserve for Investment, Gains and Losses to the General Reserve

Ms. Bhatia explained that Resolution 06-08 was part of staff's annual process of completing the financial statements. She explained that each year the surplus in the Reserve for Investment Gains and Losses Account is transferred to the Plan's General Reserve. Ms. Bhatia stated the resolution is requesting authorization to transfer \$949 million in order to allow staff to close the books as of June 30, 2005. Mr. Canzano inquired if this would leave approximately \$5 million in the reserve. Ms. Bhatia responded in the affirmative, however the General Reserve increase to approximately \$2 billion.

Mr. Moore noted that the memo talks about the 1% of fund assets that is required to be held in the reserve. He then stated it was his understanding that \$5.4 million does not constitute anything close to 1%. Ms. Bhatia clarified that the General Reserve is required to be kept at 1% "at the least".

Mr. Moore moved approval of Resolution 06-08. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

17. Request for Proposal for External Auditors

Ms. Bhatia noted Board members requested staff come back with a draft of an RFP to allow the hiring of new external auditors to conduct audits of the Retirement Office operations. She stated staff would be happy to incorporate any feedback from the Board. Ms. Bhatia informed the Board that staff was ready to move forward with the RFP to begin the selection process in a timely manner in order to hire auditors for the next year.

Chairman Canzano inquired if there were any changes in the RFP from the previous contracts. Ms. Bhatia responded the RFP is new, and according to the records there has not been a previous one for some time. She explained that staff obtained feedback from LACERS and the Controller's Office and incorporated the various items to create the RFP. Mr. Vazquez inquired if the auditors engaged would do the audit of fiscal year ending 2006.

Mr. Moore stated he would like to see the RFP reflect the fact that the Retirement Board has an Audit Committee, which shall be an active committee. He suggested language be introduced in the section regarding engagement management, stating there is an Audit Committee and they are anticipated to be active.

Mr. Moore inquired of the City Attorney's Office if it is appropriate for the Audit Committee to play a role in the selection of the external auditors, given the City Attorney's opinion that committees shall not be involved in selecting contractors. Attorney Manning responded if a committee has more than one member, and are meeting in an open meeting under the Brown Act, then there are no handcuffs whatsoever. He explained that the opinion was only meant to prevent commissioners and board members, as individuals, from being involved in the contract process. Mr. Moore expressed that one of the things to be concerned about, as an Audit Committee, is that the auditor's role is independent of management and staff. He stated the auditor's role is to look at things from the perspective of the retirees and employee members. Therefore, he feels it is appropriate that the Audit Committee plays a role and makes a recommendation to the Retirement Board. Mr. Vazquez expressed he agreed with Mr. Moore, but he did not know if this needed to be included in the language of the RFP for the approval process. However, recognition of the Audit Committee and their role would be a good idea. Ms. Bhatia inquired if the Board would like the proposals to go to the members of the Audit Committee. Mr. Moore responded in the affirmative. He indicated that this was an issue that members of the Audit Committee have wrestled with and there will soon be a new commissioner representative to replace Commissioner McCallum, who chaired the committee up until now. Mr. Deaton agreed the proposal should go to the Audit Committee and when the committee makes a

decision staff can assist as needed.

Mr. Moore moved to proceed with the RFP for External Auditors. Seconded by Mr. Deaton and carried unanimously after the following vote:

Ayes: Canzano, Vazquez, Deaton and Moore

Nays: None

9. WPERP Second Quarter 2005 Performance Report – PCA

Ms. Bernstein gave a review of the portfolio performance highlights for the second quarter of 2005. She reported the Plan increased in value by approximately \$200 million over the last year and the allocations are in line with the current policy targets except for the funding of alternative and real estate investments. Ms. Bernstein further reported that for the actual returns for the June quarter the Plan slightly underperformed its policy return. She explained the primary reason for the underperformance was due to International Equities. Ms. Bernstein reported that Invesco has underperformed its benchmark. However, the new emerging market managers did well. She stated the WPERP's overall performance was in the third quartile below the median for the quarter compared to similar funds. She explained the primary reason for this is that most of the other funds have exposure to real estate and alternative investments and DWP's Plan was unable to benefit from those markets.

Mr. Moore referred to the last sentence on page XIX of PCA's Quarterly Performance Review and inquired if the minus before the (2.4%) was an error. Ms. Bernstein responded in the affirmative.

Ms. Bernstein continued with her review, stating that in the latest year the performance was approximately 180 basis points below the policy target. She stated all of the managers for Domestic Equity have been funded for a year and they did, in fact, beat the policy return. Ms. Bernstein reported International Equities are where the major slippages occurred. She explained the reason for the nearly 600 basis points below the policy benchmark is due to the fact a number of the managers were not funded until the late third and fourth quarters, resulting in an overweight in cash for some of the quarters. Secondly, Invesco in particular, which was funded back in June 2004, performed poorly for that period. Ms. Bernstein stated PCA was going to recommend the Board place Invesco on probation or watch at the next Board meeting. She explained a probation policy would consist of monitoring the company very closely over the next 12 months, and then at that point if their performance has not improved, PCA may recommend looking for an alternative.

Mr. Vazquez inquired, with regards to the policy return being reflected at 9.4%, it was his understanding it was 8%. Mr. Moore also pointed out that on page 6.3 of the agenda packet it shows the policy benchmark at 7.51%. Ms. Bernstein responded the actuarial return is 8%, but what is calculated for the policy return is a combination of benchmarks associated with the equity and fixed income components of your asset allocation, but does not include alternative and real estate investments because you are not there. Mr. Vazquez inquired if being in alternative and real estate investments would increase or

decrease the policy return. Ms. Bernstein responded it would most likely increase the policy return since real estate was up 34% for the year. She added, this was the market return and not the actuarial return. She stated the numbers in the report by staff is through July of 2005, but PCA will need to work with staff to make sure that everyone is using the correct benchmark.

Ms. Bernstein reported for the period the Plan is down in the fourth quartile in terms of its peers due to the lack of exposure to real estate and alternative investments. In addition, there were issues of having too much cash as new managers were being funded. She stated the good news is that in looking at the first six months of 2005, wherein most of the managers were funded, the policy was on target except for the Invesco issue.

Chairman Canzano inquired, with real estate performing so well and the Plan getting ready to move into it, what strategies are being used to ensure we are not real close to that cliff. Ms. Bernstein responded that the Board has not decided on a policy for real estate yet, but his concerns will definitely be addressed in how the real estate market is entered.

Mr. Moore noted that Ms. Bernstein commented that for the six months the Plan was fully invested it compared quite favorably with the policy return. He then inquired how the Plan looked in terms of the percentile ranking with the universe. Ms. Bernstein stated she would check on it. Mr. Moore indicated he would be interested in that information because he was very disappointed with the continued low percentile. Ms. Bernstein reiterated the fact there is no exposure to real estate or alternative investments. Therefore, even though the fund is on track with the policy, the policy is going to be lower than the other plans.

Ms. Bhatia stated that some Board members had expressed concerns of discussing items 8 and 10 thru 13 without the full Board present. She continued it would require a Board action to defer the items. Mr. Deaton recommended deferring the items until the next meeting.

*****Items 8, 10, 11 12, and 13 were not discussed and will be placed on a future agenda.**

8. Investment Manager Presentations – Small Cap Equity

- a) **Bank of New York**
- b) **Earnest Partners**

10. Private Equity – sample of due diligence review by PCA

11. Other Pension Plans' policies for private equity

12. Discussion of Private Equity Policy – PCA

13. Discussion of Private Equity Strategy – PCA

18. Retirement Plan Manager’s Comments

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

b) General Items

Ms. Bhatia reported the City Personnel Department is moving ahead with the examination process for the Assistant Plan Manager position. But in the meantime, two emergency appointments have been made to those positions. She stated the persons appointed are Rodelio Abarro and Hermilina Tumaliuan.

19. Future agenda items

Mr. Vazquez requested new insurance recommendations at the next Board meeting. He informed the other Board members that Intech met with him since risk management is in his department and he is also a Board member. Mr. Vazquez stated the firm advised that the waiver of subrogation offered by their insurer is no longer available. Consequently, it will cost Intech several hundred thousand dollars to put something in place to make up for that, and it will eat into their management fees too much. Mr. Vazquez expressed his opinion that a new insurance policy needed to be developed. Ms. Bernstein noted that at the last Board meeting the Board requested a special meeting on insurance and staff has scheduled that meeting for September 14, 2005. Ms. Bhatia commented since Intech is a current investment manager, the Board would have to address whether the policy would apply currently or prospectively.

The Board meeting was adjourned at 9:04 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary