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

MINUTES – October 19, 2005

Present:

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

Absent:

Ronald Deaton	General Manager
Vacant	Commissioner

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Pamela Alsterlind	Pension Consulting Alliance
Michael R. Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:33 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Tom Harrison of Wells Capital Management approached the podium.

President Romero recognized Mr. Harrison.

Mr. Harrison indicated he was speaking to the Board as a representative and board member of the Neighborhood Youth Association. He noted, as he mentioned at the last Board Meeting, President Romero is one of four honorees at an investors and education fundraiser dinner scheduled for November 16, 2005. Mr. Harrison stated the association has had wonderful acceptance by the investment community and others who are buying tables and will be participating. He, once again, invited the Board and Ms. Bhatia to this function and stated he had invitations for them. Mr. Harrison returned to the audience.

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

1. **Approval of Board Minutes for September 14, 2005 (Special Board Meeting)**
2. **Termination from Monthly Rolls as of November 2005:**
   Retirement Resolution for October 2005

Mr. Moore 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 October 2005**
4. **Notice of Deaths for September 2005**
5. **Report on Status of Insurance**
6. **Investment Summary as of September 30, 2005**
7. **Market Value of the Retirement, Death & Disability Funds as of September 30, 2005**

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

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

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

8. **Investment Manager Presentations**

a) Fidelity Investments

Messrs. L. Arthur J. Greenwood, Senior Vice President and William Fink, Institutional Portfolio Manager, from Fidelity approached the table.

President Romero recognized the representatives from Fidelity.

Mr. Art Greenwood began by stating he is responsible for relationship management and client services on the west coast. Mr. Greenwood continued, noting their strategy, which is international growth, is an active EAFE strategy with a growth bias. He added they have managed this strategy for about 10 ½ months in their commingled pool vehicle and during this time have added value on both the gross and net basis further noting that details were in the presentation materials provided. Mr. Greenwood updated the Board on their organization, stating Fidelity is now more clearly separating the institutional business from the retail mutual fund business. He continued, stating Fidelity is establishing another umbrella organization called Piramis Global Advisors, which will develop over the next couple of years and will enable them to provide additional institutional strategies and additional capacity with more customized institutional reporting. Mr. Greenwood stated, with respect to the international growth discipline, Fidelity does not anticipate any impact whatsoever, adding this has always been an institutional-only strategy, not offered in a mutual fund format. He noted, on the regulatory front, at the end of last year Fidelity initiated an extensive review of internal policy compliance in the area of business entertainment, gifts, and gratuities, noting that at that time they identified a number of instances where employees had not complied with Fidelity's policies. Acknowledging the seriousness of this matter, Mr. Greenwood reported Fidelity took prompt action and, as a result of their review, approximately 15 individuals were disciplined and five employees were terminated. He indicated the SEC continues to investigate and review this matter and is bringing this matter to as prompt a conclusion as possible, adding Fidelity will keep the Board informed.

Mr. Greenwood turned the presentation over to Mr. William Fink, who continued with an overview of Fidelity's performance on the International Developed Market mandate managed by them. He reported the International Growth investment process is a bottoms-up, stock-picking strategy and, as such, fundamental research is a critical component of the process. Mr. Fink continued, the actual investment starts with fundamental research, adding the analyst will rate their companies, recommend the best ideas to the portfolio managers, and then construct three regional sub-portfolios, Europe, Japan and the Pacific Basin. He added, the asset allocation is done at the regional level. Mr. Fink continued, stating the portfolio consists of approximately 200 stocks, noting it is a highly liquid, highly diversified portfolio, which is not dependent on any one stock or one theme and has attribution from a lot of different areas. Mr. Fink reported that Fidelity does have certain risk controls and they do limit the types of sector, industry and security bets, which ensures stock selection is the key driver to portfolio returns over time.

Mr. Fink proceeded to give an overview of the performance of the portfolio stating it was funded on November 15, 2004, and since then the returns have been roughly 16.3%. He added the EAFE benchmark has increased by approximately 15.6% so there has been value added during this period. Mr. Fink explained that although they look at EAFE as the benchmark, Fidelity also has a growth bias in the portfolio so they also look at how growth stocks in general are performing during the period. He reported for this period, since inception, growth stocks as measured by the MSCI Growth Index have increased by 14.8% adding, relative to the growth benchmark, Fidelity has actually done a little better than the EAFE benchmark. Mr. Fink noted that during this period, the European portfolio has outperformed its benchmark by a little over 100 basis points and the Pacific Basin manager has performed better, with close to 600 basis points over the benchmark. He reported one area where Fidelity has seen some challenges is in Japan where the manager has under performed by about 200 basis points. Mr. Fink reported that, as a whole, the portfolio has outperformed the EAFE benchmark net-of-fees. Mr. Fink continued, taking a look at the current structure, the portfolio has a position that is slightly underweighted relative to the European region of about 100 basis points and an overweight in the Pacific Basin of a similar amount. He explained that this strategy has been in place for the whole year; noting, in the first half of the year, the overweight in Japan actually hurt the portfolio as Japan underperformed. Mr. Fink indicated that Japan has come back in the third quarter, so that is neutralized for the full year. He stated that asset allocation, as a whole, has been basically neutral and stock picking has provided the total returns. Mr. Fink reported total value-added for the period has come from stock picking, which is what they like to see over time. He stated, for the period under review, the European portfolio has risen by 15% and the Japanese portfolio has risen by 16%, so there is not a lot to gain by moving back and forth from regions, noting Fidelity has been concentrating on picking stocks as opposed to trying to move money back and forth from the regions. Mr. Fink added the turnover of the portfolio is about 50%, with a two-year time horizon.

President Romero inquired if the under performance in Japan as compared to the benchmark is a result of being over weighted in a certain sector. Mr. Fink replied in the affirmative adding the primary reason for underperformance in the Japanese market is due to the strong economy with many of the heavy cyclical sectors having done quite well, particularly in the machinery and the commodity area. He added these are not normally growth areas and stocks they would not normally have in the portfolio, stating Fidelity was underweighted in these areas. Mr. Fink pointed out the place where this is discussed in the presentation materials.

Mr. Vazquez inquired if the privatization of the postal system had any impact on the economy, the stock market, or on Fidelity's view and their asset allocations.

Mr. Fink responded, currently no, adding it is a very long-term shift, and the actual process will not play out until 2017. He commented Fidelity thinks privatization is positive and results in better reallocation of resources within the economy, but it is really very difficult for it to have any impact on the current portfolio.

Mr. Moore referred to page 7 where Fidelity presents the parameters compared to the benchmark noting Fidelity gives itself more leeway with respect to market capitalization. He inquired if this was done so Fidelity can bias in favor of larger cap. Mr. Fink responded they were actually growth biased, primarily a large cap portfolio, to try to take advantage of their large research group but also try to look for mid and small cap stocks that might not be in the benchmark or have a smaller bias than large cap stocks.

Mr. Moore noted the indexes used for the other International Developed Market managers include Canada, while Fidelity does not. Mr. Fink responded, when Fidelity was first appointed it was for an EAFE benchmark with the Board deciding to use a commingled pool vehicle. Later, there was discussion to change the benchmark to include Canada but since Fidelity had already discussed investing in a pool, it was allowed that Fidelity use the present benchmark until they could introduce a pool that included Canada which they will do in the future.

Ms. Bernstein concurred with Mr. Fink's response adding the Board adopted an EAFE, plus Canada, to ensure the Plan has exposure to the full international market.

In regards to the SEC investigation, Mr. Moore inquired if most of the activity that prompted the staff actions of Fidelity was concentrated in a particular area organizationally, or was it more widespread.

Mr. Greenwood responded it was concentrated in the Boston-based equity trading desk and the myriad of institutional sales people who are entertaining and developing relationships with people on their trading desk. He added he felt it was important to recognize that this particular portfolio conducts substantially all of its trading on their non-U.S. desks based in London, Hong Kong, Tokyo, and in the local markets.

Mr. Moore inquired if this was a result of supervisors who were not adhering to the rules and, in fact, bending them for performance purposes. Mr. Greenwood responded that obviously there was some level of supervision that was inadequate.

The representatives from Fidelity thanked the Board and left the meeting.

b) Invesco

Ms. Michele Garren, CFA, Portfolio Manager, and Mr. Justin Boller, CFA, Product Specialist, from Invesco approached the table.

President Romero recognized the representatives from Invesco.

Mr. Boller proceeded with an update of Invesco's organization. He then turned the presentation over to Ms. Garren to speak on their investment performance and to give a review of their investment process.

Ms. Garren proceeded to go over the information in the presentation materials. She noted Invesco is a bottoms-up manager, building the portfolios one stock at a time. Ms. Garren stated that Invesco starts with the premise they are adjusting international equity company financial statements for certain deviations in terms of accounting treatments. She added Invesco also exhibits a bias in favor of high quality companies, which is measured in a number of ways, primarily through earning stability and leverage. Ms. Garren added, companies that achieve a steady stream of earnings and do so without taking undue risks are rewarded. She reported Invesco employs a model portfolio approach that ensures all their clients with the same benchmark achieved the same pattern of return, reiterating that Invesco builds these portfolios one stock at a time. Ms. Garren explained this is very important as a distinguishing characteristic because the country and sector weightings are a by-product of that stock selection process within certain risk guidelines that Invesco sets for themselves. Ms. Garren noted, in the end, the portfolio consists of anywhere from 60 to 70 stocks, adding that this is a relatively concentrated approach. She asked the Board to refer to page 6, which would give them a feel for the style and the posturing within the portfolio. She reported that Invesco looks for companies who offer above-average earnings stream for their clients, which is measured by return on equity. Ms. Garren explained it is this combination of return on equity and the valuation characteristics that put Invesco in that core category with the value orientation. She stated, in addition, Invesco focuses on larger cap companies noting that Invesco has moved towards a slight large cap bias. Ms. Garren explained small cap has been very strong for three years running and Invesco sees the larger cap companies not obtaining the premium that they normally had in past years so Invesco is taking advantage of that and positioning themselves for a turn to the large cap environment.

Ms. Garren gave an overview of Invesco's performance through the end of the 3rd quarter of 2005. She stated they were funded in June of 2004 with $270 million and there has been no activity in terms of contributions to or withdrawals from the portfolio.

Ms. Garren added Invesco's total investment change for the period is just under $68.6 million with the ending market value of just $338.6 million. She reported Invesco's strategy, in general, has encountered some challenges over this short timeframe. Ms. Garren explained, even though the market is performing very well, in terms of absolute returns Invesco's strategy is trailing. She went on to put this in perspective of both the current market as well as what the Plan might expect going forward.

President Romero asked if Invesco's position was that they underperformed because of their weighted sector in Japan. Ms. Garren responded stock selection in Japan has not been adding value for Invesco, noting it has been quite a challenge. President Romero asked if Invesco was opting to invest more in the United Kingdom as opposed to Japan. Ms. Garren replied in the affirmative noting that Invesco is adding positions in the U.K., particularly in the consumer area.

Mr. Moore inquired if Ms. Garren was going to offer the Board an additional attribution analysis. Ms. Garren replied in the affirmative adding it is a two-page analysis, which is divided along geographic as well as sector lines. She passed the analysis out to the Board.

Mr. Moore asked for elaboration on Ivesco's comments relative to the weighting of capitalization. He inquired if the chart on page 9 shows the current breakdown or does it show a three-year span. Ms. Garren replied that the chart shows the weighting as of the end of the third quarter, but noted it is representative of what you would see over the full time period adding that Invesco has never retained any exposure in the zero to $2 ½ billion market capitalization category, which is part of Invesco's process.

Mr. Moore stated, as noted on page 16, Invesco is underweighted in Canada and the Pacific Basin, specifically, Japan and asked Invesco to speak more on this.

Ms. Garren responded, discussing the portfolio's exposures in general, stating Invesco builds their portfolio one stock at a time, adding these regional weightings are a by-product of where they are finding value in individual stocks. She added Invesco has de-emphasized the Pacific Basin going back several years. Ms. Garren stated Invesco has de-emphasized Australia by eliminating long-standing positions in the mining area and is now down to just one position in Australia, specifically, the National Australia Bank. She noted Invesco does have modest positions in Hong Kong.

Mr. Moore asked Ms. Garren to discuss how the Plan should look at performance over a period of time relative to the index Invesco is being measured against and what they think a reasonable cycle is.

Ms. Garren explained many people consider a cycle to be roughly 3 – 4 years. She stated there have been some elongated business cycles under Mr. Greenspan's tenure. Ms. Garren noted another way to consider a market cycle would be moving from a very positive environment into a more challenging environment and weathering different market climates. She acknowledged this is not a very scientific answer, noting that there are other opinions out there, but stated 3 – 4 years would constitute a full cycle in terms of trends and other variables.

The representatives from Invesco thanked the Board and left the meeting.

9. Staff report on concerns with respect to implementation of alternative investments and real estate

President Romero noted PCA did not receive a packet prior to today's meeting and stated he was not sure they were prepared to respond to staff's memo at the present time. He inquired if PCA wished to defer this item to the next meeting.

Ms. Bernstein from PCA stated she could give some brief comments or, if the Board prefers, come back and discuss this item at the November 2, 2005, meeting.

President Romero stated this issue would be deferred to the November 2, 2005, Board Meeting, asking that PCA now be sent a package prior to each meeting.

Mr. Vazquez stated, on page 9.15 of the Board package, there is a report from PCA on real estate and alternatives discussing whether these mandates should be in our portfolio. He commented that this memo states a completely different view than the opinions expressed in the memo from staff. Mr. Vazquez requested if PCA's views still stand as presented in their previous memo.

Ms. Bernstein agreed, stating that PCA has not changed their position. She added that staffing is an important issue, and wanted to ensure the Plan and staff is prepared to take on additional asset classes, which she will discuss in more detail at the next meeting.

Mr. Moore asked if this is the first time the May 9, 2005, memo from PCA has been presented.

Ms. Bhatia responded that this memo was presented at the May 16th Board meeting.

Mr. Moore commented, when the original asset allocation studies were done, PCA recommended and the Board adopted the 5% and 4% for the two asset classes the Plan has yet to invest in. He added that this was based on the modeling PCA did, looking through the "optimum performance and the efficient frontier." Mr. Moore then inquired, given how this was put together based on PCA's number-crunching relative to the various sectors, why wouldn't the recommendation as to the percentage allocation to those classes be the same for virtually all of PCA's clients.

Ms Bernstein responded, each client has different risks and attitudes, adding there is still a range of comfort level with new asset classes. She noted the Plan is new to real estate, while other clients have been in these asset classes for a number of years and understand those markets. Ms. Bernstein explained these clients either like them and want to increase the allocation in an attempt to both diversify and broaden the opportunities for achieving overall higher returns with a given level of risk or retain previous allocations. She added, for example, with hedge funds there is a portable alpha strategy and PCA would not recommend this strategy to a plan that is brand new to it to invest 5 or 10% of their allocation.

Mr. Moore responded, during the last several meetings the Board emphasized they want to take a relatively conservative approach to these two particular classes, but had not decided this before the 4 and 5% were selected for the target allocations. He inquired if what PCA is stating is the 4 and 5%, in addition to their optimization modeling, were based on inputs from the Board.

PCA responded, the Board has been working through, since that time, educating and reviewing details of policies, making sure the policies are geared to the Board's comfort level with the risks in each markets.

Mr. Moore replied that his final question relates to PCA's comments in their May 9th memo, where they stated that such analysis should be based upon what would ultimately be a new asset liability study emphasizing the liability side. He inquired, based upon liability, what most influences this allocation approach,

Ms. Bernstein replied, PCA will come back and speak to the Board on what goes into an asset liability study and how it relates to the Board's decision-making on asset allocations.

10. Private Equity – sample of due diligence review by PCA (deferred from August 17, 2005 meeting)

Ms. Bhatia reported Board members had requested an example of a "due diligence report" prepared by PCA be provided. She stated this report was prepared for the Fire and Police Pension Fund for a private equity investment opportunity.

Ms. Bernstein stated this was a sample of the type of due diligence review PCA conducts on each private equity opportunity that they would bring to the Board for potential investment. She explained the purpose was to give the Board more background on the type of research done on individual opportunities within the context of looking at numerous opportunities, weeding them down, and then doing detailed research including reference checks, thorough reviews of all documents, terms and conditions, as well as the assessment of management and the overall organization.

Mr. Moore noted the focus of the report is on the individuals, the track records they achieved, either as individuals or as a group, and on the broad assessments of the particular investment that is before a client. He noted the report does not get into an analysis of the specific investments and inquired if this would generally be the case.

Ms. Bernstein responded in the affirmative, adding every time PCA brings a partnership before the Board, it is a new partnership just opened, so they will still be seeking investors. She explained PCA will not be able to analyze the potential investments adding that they will be looking at the patterns and the types of decisions these partnerships made in the past to get a sense of whether PCA thinks they can select quality investments for the Plan in the future within whatever sphere they are in.

Mr. Moore inquired as to the secondary fund-of-funds.

Ms. Bernstein replied PCA will look at the next level and see what kind of leveraged buy-outs they invest in and get a sense of what they have invested in, and make sure you are looking at complimentary managers just like you would in large cap.

Mr. Vazquez asked about the partnerships in the media and communications area, asking how they got there with the Fire and Police Pension Fund and inquiring who selected these.

Ms. Bernstein explained PCA's mandate for the Los Angeles Fire and Police is to look at overall private equity which includes all sub-asset classes, looking for quality partnership that PCA feels fits in and diversifies their overall portfolio. She added this includes both new partnerships and, in some cases, partnerships that they already have in their portfolio that are coming back to market for their fourth or fifth fund.
Ms. Bernstein stated the segment on buy-outs was not Fire and Police's decision, but happened to be an opportunity that PCA felt was great for their portfolio. She commented PCA was not specifically looking for a media or communications buy-out firm, but were looking at buy-out firms in general and this was one in the market that PCA thought would provide an excellent fit for Fire and Police Pension's particular portfolio.

The Board thanked Ms. Bernstein and she returned to her seat.

11. Other Pension Plans' policies for private equity (deferred from August 17, 2005 meeting

Ms. Bhatia explained staff was asked to obtain, from other pension plans, their policies in connection with alternative investments. She stated the policies include one from LACERS, one from the Los Angeles Fire and Police Pension Plan, and a study done by Wyatt Investment Consulting. Ms Bhatia informed the Board, staff did find out, by making calls, the two City pension plans have not currently invested in hedge funds, adding they do, however, have an alternative investment program and they are invested in private equity and have been for some time.

Ms. Bernstein responded that Ms. Bhatia is correct, stating both L.A. Fire and Police and LACERS have been in private equity for a number of years, adding L.A. Fire and Police are in the process of doing an RFI and have selected finalists for their first foray into hedge fund-of-funds which will be completed by the end of this year.

12. Revisions to Real Estate Investment Policy and Strategy

Ms. Pamela Alsterlind, Principal, from PCA approached the table.

President Romero recognized the representative from PCA.

President Romero inquired if the Board had any questions regarding the Investment Strategy and Policy being presented today.

Ms. Alterlind reminded the Board that this policy and strategy presented to the Board is an updated version, which includes moving the “gatekeeper” function from staff to the consultant.

Mr. Moore referenced page 7 of the presentation material, under “Diversification by Investment Size”, asking if PCA could explain the statement, “Larger holdings may be deemed appropriate if the Plan receives commensurate control premiums associated with an investment.”

Ms. Alsterlind responded stating there may be a small fund ($200 or $400 million), and the Plan may take a small piece of that because PCA feels it is compelling for the Plan and PCA will look to get the Plan a seat on the advisory committee. This gives the Plan more say than you typically would have in a commingled fund. She stated that this scenario is highly unlikely in the first couple of years and added that we would not see that in the core funds that we are initially looking at. Ms. Alsterlind noted that this would probably be an isolated case going forward.

Mr. Moore inquired if the Board was now adopting this policy with the changes.

Ms. Alsterlind explained that this policy was adopted at the last Board Meeting, with noted changes.

President Romero thanked Ms. Alsterlind and she returned to her seat.

13. Proposed Revisions to Investment Guidelines

Ms. Sarah Bernstein from PCA approached the table.

Mr. Canzano stated that he understood the Plan is adding another rating to the bonds, but was unclear on what happens if the Plan buys a bond at investment-grade and, while holding that bond, it drops to less than investment grade, citing, for example, the General Motor’s bond. He inquired if we are talking about acquiring bonds with their rating on the date of purchase; and subsequently, if they drop below the specified rating, do we need to divest of them, and if this is the case, is it a wise strategy.

President Romero stated that page 13.17 of the Board package, number 1, was not very clear and asked Ms. Bernstein to explain.

Ms. Bernstein stated she feels this item about required ratings could be further edited to include the phrase, “at time of purchase” for the individual securities. She explained the Plan has a cap on the overall portfolio, with the total portfolio average having to be rated “A” or better. Ms. Bernstein continued she feels the policy should be clarified to state that at the security level the managers, at time of purchase, have to buy certain investment rated bonds, non-junk grade. She explained there are rating fluctuations, like in the equity market, that can dip below and we don’t necessarily want to sell right at the very low point, stating, “we try to buy low and sell high.” Ms. Bernstein added that this should be an additional clarification to the policy that the Board should consider.

President Romero asked Ms. Bhatia for her comments.

Ms. Bhatia replied staff will come back with additional clarification, and stated the managers are required to comply with the guidelines in terms of the quality at the time of purchase. She stated staff also asks managers to report to them on bonds that do not meet the guidelines and fall below investment grade and may fall into the category of high yield bonds. Ms. Bhatia added GM is a recent example.

President Romero inquired if he was correct in stating that the Plan is not to buy investment bonds that fall below triple B. Ms. Bhatia responded it is based on the mandate they are required to manage, explaining that if they are required to manage a high yield mandate, they would have to meet those requirements at the time of purchase. She added, the managers need to take the necessary steps to ensure the mandate complies with the guidelines that they were entrusted with.

President Romero asked if there was a guideline as to the individual bonds stating we cannot purchase anything below a certain grade and at what point do we sell once a bond goes below triple B.

Ms. Bhatia replied this is defined in the Investment Guidelines, stating that today, all we are doing is adding the additional rating agency because of the recent changes in the fixed income market.

President Romero asked staff to review the guidelines and bring this information back to the Board at the next meeting.

Ms. Bhatia replied in the affirmative.

President Romero stopped to congratulate Mr. Canzano on his recent completion of the Wharton's advanced class.

Mr. Canzano thanked President Romero and stated the advanced investment seminar was an excellent program. He added his participation in this seminar was the reason he missed the last Board meeting.

President Romero inquired if there was any more discussion on this policy.

Ms. Bernstein responded that she wished to comment on the amendment to the international policies. She stated, on page 13.5, anywhere it states, MSCI EAFE plus Canada Value *"net of dividends*" should be changed to read "**net dividends"**. Ms. Bernstein commented the purpose of this is to make sure everyone is on the same track; the managers, the custodian and the consultant and staff, on how we are measuring performance. She explained that this is "net of taxes," which means the dividends are taxed internationally as opposed to gross.

Mr. Moore moved approval of Resolution 06-13. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Vazquez, and Calvache
Nays: None

14. Appointment of Department of Water and Power Representative to the Deferred Compensation Board

President Romero appointed Eugene Canzano as the Water and Power Employees' Plan (WPERP) representative to the Deferred Compensation Board. He requested staff notify the Deferred Compensation Board.

Mr. Canzano accepted the nomination.

15. Discussion of Retirement Board policy on release of personal information data by the Retirement Office and possible action

Michael Wilkinson, Deputy City Attorney, introduced Mr. Fred Merkin, long-time, high level member of the City Attorney's Office, most recently head of the Employee Relations Section, and currently working as a consultant with the Department of Water and Power on legal matters.

Mr. Merkin stated the purpose of this policy is to formalize access by the City Attorney's Office to the records of the Retirement Office. He stated that this policy calls for either a formal request or a subpoena from the City Attorney's office. Mr. Merkin explained that a subpoena is actually a legal impossibility because the City of Los Angeles is a municipal corporation and the subpoena would have to be issued in the name of the City directed to the City. He suggested the phrase "or subpoena by the City Attorney's Office," under <u>EXCEPTIONS</u> (page 15.4 in the Board package) be deleted and left as a formal request.

Mr. Wilkinson reported Ms. Bhatia had contacted him, based on a long-standing policy from the City Attorney's office that goes back more than twenty years. He added the City Attorney's office strongly supports both the philosophy and the spirit of the Board in zealously protecting the private information of the members in this time of identity theft and everyone's concern with privacy. Mr. Wilkinson assured the Board that any information that is turned over to the City Attorney's office would be protected against any unauthorized release.

Mr. Merkin stated a formal request gives the Department a record that this information has been presented to the City Attorney's office.

Ms. Bhatia inquired if Mr. Merkin was suggesting that the request for a subpoena from the City Attorney's office be taken out of the policy and that it be left as a formal request. She noted that staff's concerns arise from the fact that the City Attorney's office may delegate the work to an employee in another Department. Ms. Bhatia wanted assurance that the City Attorney requesting the information be responsible for the information being released by the Retirement Office.

Mr. Merkin replied in the affirmative, stating the City Attorney's office would be responsible for the proper use of that information. He added, the City Attorney needs to have access to this information to properly advise and defend the City in litigation. He added that a lot of this information may be confidential, such as Disability information or law enforcement information from the Police Department, and the City Attorney's office bears responsibility for the proper use of that information.

Mr. Wilkinson added when there is outside counsel involved it is important that the Department have a written document that would cover these outside lawyers under the same requirements as the City Attorney's office.

President Romero asked for clarification, inquiring if prior to this policy when the City Attorney asked for information from the Retirement Office whether the information was provided.

Ms. Bhatia responded only if it was general information or if there was a subpoena. She stated that the old policy states that there were a few exceptions where information was provided, 1) if there was a release by the member and they knew what the information was being used for or 2) if the Retirement Office received a subpoena from an outside party, but coming through the City Attorney's office. In response to Mr. Merkin's comments, Ms. Bhatia clarified that the City Attorney's office should not have to provide a subpoena to get the information if it is for litigation or law enforcement purposes.

Mr. Wilkinson reiterated that if information is requested by an outside entity, a subpoena would be required and be handled through the City Attorney's office with the City Attorney's approval for releasing that information.

Ms. Bhatia stated that some parameters will have to be established since nearly all information in the Retirement Office is confidential. She added this is why a written formal request would need to be provided to the Retirement Office in order to have a trail of where the information is being released.

Mr. Merkin and Mr. Wilkinson agreed with Ms. Bhatia.

President Romero asked if this was a time-sensitive item.

Ms. Bhatia replied in the affirmative, adding the Retirement Office has recently received many requests. She stated she has informed staff that they must adhere to the present policy except for the exceptions noted in the policy and this has caused some holdups.

President Romero stated he was not comfortable with this policy and would like this to come back to the next meeting.

Mr. Vazquez commented that he feels this section of the policy needs to be rewritten to state that any requests or subpoenas received by the Retirement Office asking for information, not specifically granted by the Plan member, should be sent to the City Attorney's office for disposition.

Ms. Calvache stated she had some confusion regarding the present process. She inquired if a member wants his/her records released to an attorney, is there a form that is completed and sent to the Retirement Plan Manager for approval.

Ms. Bhatia responded that generally the Retirement Office does not receive specific requests from members, it comes from an outside entity and we inquire if the member knows this information is being requested and has provided their consent. She noted these requests are usually accompanied by a letter from the member authorizing the release of this information. Ms. Bhatia added that it is up to the entity requesting the information to obtain the consent from the member and staff checks whether this consent was provided.

Ms. Calvache asked if these requests are sent over to the City Attorney's office to approve the release of information. Ms. Bhatia responded that, at this point, the Retirement Office is treating the City Attorney's office like everyone else, which is we do not release this information and require that they get a consent from the member. She clarified that the City Attorney is stating that their office needs to be the exception in that, if they provide a formal request, they should not have to go through the same rules. She added, the proposed changes in the policy is basically addressing releases to the City Attorney's.

Mr. Wilkinson explained that this is a very subtle change and noted the concern from the Board is very real and very important. He added that all the protections are already in place by requiring any outside entity to have to submit a subpoena or the release of the information only if authorized by the member. Mr. Wilkinson stressed, the only change is that the City Attorney's office, in order to represent the Department, would not have to issue a subpoena to get information, only a written request.

President Romero expressed his concern that, as Board members, they represent equally the Department and the employees.

Mr. Merkin responded the City Attorney, under the City Charter, has the obligation to represent the entire City, including the Department of Water and Power, and legally has access to this information by virtue of their Charter authority as an elected City Attorney. He added information could be necessary, as in litigation where, in order to defend the Department, the City Attorney would need confidential information from the Retirement Office to properly defend the Department. Mr. Merkin continued that the City Attorney must then make a decision regarding this information such as will this information be filed in court.

Ms. Calvache inquired, if the City Attorney requests something from the Retirement Office, do they have to notify the member.

Mr. Merkin replied that there is no obligation to advise the employee that the City Attorney has been given access to information.

Ms. Calvache clarified, right now the Retirement Office treats the City Attorney's office like any other agency, the change being, the City Attorney has access to records with the requirement to notify the member.

Mr. Merkin stated that, according to the policy, which was written in 1987, there are exceptions, one of which is litigation against the Department, the City, and the Retirement Plan, which has not changed. He added right now this requested change in the policy is just a way of formalizing the access, since there is nothing in writing at this point. Mr. Merkin stated this ensures that the Office has a record of who was given access to particular information. He added this is just a formalization of a policy that is already there.

Mr. Bhatia agreed, stating under 15.3 of the Board package, under “EXCEPTIONS,” it does state, “…when required by legal process, for law enforcement purposes, or for litigation involving the City of Los Angeles, the Department of Water and Power, or the Retirement Plan.” She stated, according to past practice, the Retirement Office requires we release the information for these purposes, but only after receiving a subpoena which came through the City Attorney’s office. Ms. Bhatia continued that now we are expanding this to state if the City Attorney’s office makes a formal request, they will be allowed access. She explained that since this is a slight change from past practice, but she wanted it in writing before she gives direction to staff.

President Romero and Ms. Calvache both stated that they were not comfortable at this time and would like to bring this item back to the next Board meeting.

Mr. Canzano asked for the legal definition of a, “formal request.”

Mr. Merkin stated anything in writing, as in a letter or an e-mail, which will give the Retirement Office a record of the City Attorney requesting particular information on a particular date and how the office responded.

President Romero noted, under “EXCEPTIONS” it states, “When the release is specifically permitted by the Plan member and for purposes known to that member….” He commented, it seems this mean the member needs to be informed.

Ms. Bhatia noted that this is just one of three exceptions.

President Romero stated he would like to table this item and bring it back to the next Board Meeting after staff has worked with the City Attorney’s office to come up with new language that will clarify the exceptions in this policy.

RETIREMENT PLAN MANAGER COMMENTS

Ms. Bhatia requested to return to Item 13, “Proposed Revisions to Investment Guidelines” and have Mr. Rody Abarro respond to Mr. Canzano’s query on what happens when an investment grade fund falls below investment grade within our investment grade mandate.

Mr. Abarro stated that the answer is provided in Section 12, page 28 (page 13.34 of the Board package) of the Investment Guidelines, Item No. 2, under Portfolio Guidelines. He indicated that it states, “In the event of a downgrade below Baa3 or BBB-, Manager(s) must notify the Plan about the quality of the issue and make a recommendation on either the retention or deletion of the bond from the portfolio.” Mr. Abarro added, in the case of General Motors, staff did receive from Wells Capital an explanation of why they wanted to retain General Motors in spite of the downgrade until such point where they can sell it at their target price. He stated staff concurred with their analysis of this situation.

Mr. Canzano thanked Mr. Abarro and stated that the present policy states staff would bring this to the attention of the Board if this occurs. Ms. Bhatia clarified that staff monitors these issues on an on-going basis.

President Romero inquired if it addressed any particular rating agency. Ms. Bhatia responded that it is talking about each of the three rating agencies.

Mr. Abarro further explained there are three rating agencies, each one having a rating that denotes whether it is the lowest investment grade, with the Plan taking the lowest of the three. He noted that this is the same for high yield grade, which is addressed in section 13, page 30 (page 13.36 of the Board package), which states, "In the event of a downgrade below single C, or in the case of a default, Manager(s) must notify the Plan of the downgrade within two days of the date that the downgrade occurs."

President Romero thanked Mr. Abarro.

16. Retirement Plan Manager's Comments

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

b) Communication from retirees

c) General Items

Ms. Bhatia informed the Board, Mr. Conney Williams is currently overseeing the Benefits Section as the Assistant Plan Manager as part of the rotation program that she had previously informed the Board Members about.

She also reported the RFP for the Auditors was advertised and will close on November 21, 2005, adding the schedule can be forwarded to the Audit Committee if they wish.

President Romero asked if the review of the RFPs would be done through the Audit Committee. Ms. Bhatia replied in the affirmative. She stated the schedule states that the short list of potential auditors to be selected will be reviewed at the Board Meeting of January 18, 2006.

Ms. Bhatia continued, stating the Board Meetings will now be held on the first and third Wednesdays of the month at 9:30 am.

In response to Mr. Canzano's inquiry regarding the RFP for the computer system, Ms. Bhatia reported staff prepared the draft and it was sent to ITS. Staff is awaiting their comments to bring back to the Board. President Romero asked if Retirement staff provided a "return by" date. Ms. Bhatia replied in the affirmative, stating the date given was October 14th. She stated, after following up with ITS, they stated they needed more time to review the RFP, adding in response to Ms. Calvache's query, that she believes the reviewers are the staff members who were involved in the presentation to the Board.

President Romero inquired if the Board had decided on an RFI or an RFP. Ms. Bhatia responded, an RFP.

Ms. Calvache asked staff to send the Board Members the future dates of the Board Meetings. She also asked the status of the Retirement Plan and Assistant Plan Manager interviews. Ms. Bhatia responded that the interviews for the Retirement Plan Manager have been scheduled for November 1st, but she has had no news on the Assistant Retirement Plan Manager.

Mr. Moore asked if the new Commissioner to the Retirement Board had been appointed. Mr. Vazquez replied only four Commissioners have been confirmed by City Council, with a fifth one just being announced. Once she is confirmed by Council, the Commission will assign members to the various committees including the Retirement Board.

Ms. Bhatia pointed out an e-mail staff had received from one of the retirees regarding her concerns with investments in hedge funds stating this individual asked that it be presented to the Board. She added that it is included in the Board package.

The Board meeting was adjourned at 11:24 am.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary