

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

MINUTES – November 2, 2005

Present:

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

Absent:

Vacant	Commissioner
Eugene Canzano	Board Member
Ronald Deaton	General Manager

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney
Paul Angelo	The Segal Company

President Romero called the meeting to order at 9:37 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Ms. Colon stated there were no public comments.

1. Investment Manager presentation by The Boston Company – International Developed Market

Mr. Robert Harkins, Vice President and Ms. Carolyn Kedersha, Senior Portfolio Manager approached the Board table.

President Romero recognized Mr. Harkins and Ms. Kedersha.

Mr. Harkins stated he and Ms. Kedersha would be presenting the Board with an update on the EAFE plus Canada and the Emerging Markets strategy.

Mr. Harkins reported that since Boston Company was hired there have been no changes in ownership and it continues to be a subsidiary of Mellon Financial. He stated the firm is solely focused on active equity management with their activities geared around adding value through stock selection. Mr. Harkins reported Boston closed in September with just under \$60 billion in assets under management. He emphasized the firm has not been the focus of any regulatory or law enforcement agency action. Mr. Harkins indicated that each of the portfolio managers has more than a decade of experience with the Boston Company and there has been no portfolio manager turnover in the last three years. He added the firm has added four research analysts to support growth. Mr. Moore inquired if there had been any staff member losses. Mr. Harkins responded the firms lost three junior analysts, but none at the senior level.

Mr. Harkins began reporting on the investment performance of the EAFE plus Canada Strategy. He noted that WPERP funded Boston 7 months ago through September. Their strategy was up 2.7% versus 6.3% for the index, thereby trailing by a little more than 3.6%. Mr. Harkins reported in the month of October there was a very significant shift in investor sentiment resulting in the EAFE plus Canada index falling by more than 320 basis points. However, Boston's portfolio held up very well and fell by only 200 basis points, closing the gap by approximately 100 points. Mr. Vazquez inquired what Boston considers a full market cycle, where is Water & Power Employees' Retirement Plan (WPERP) in this cycle, and when will the cycle end. Mr. Harkins responded that typically a full market cycle is a period averaging three to five years. Ms. Kedersha responded WPERP was currently at the beginning of the cycle.

Mr. Harkins reported, with regards to annual returns, Boston Company outperformed the index 9 out of the past 10 years. He stated, with regards to risk taken in order to generate returns, their returns have been higher with variability in returns less than the median, their peers, or the index. He explained that all equities are volatile, especially non-U.S. equities. Mr. Harkins expressed it is very easy to fall into the trap of chasing near term performance of the index, and Boston feels the way to win in these markets over the longer term is to stick to their process. Ms. Kedersha agreed it is key over the course of the cycle to stick to a well-defined discipline investment process, because this is what protects their client's assets over the long term and gives them the added alpha. Ms. Kedersha stated Boston Company selects stocks with good value metrics relative to other stocks within their country and their sector. She stated the firm also looks at how the company's balance sheet is constructed relative to what they are trying to do with the company.

Ms. Kedersha reviewed the performance attribution analysis of the EAFE plus Canada portfolio. She pointed out the factors presently affecting WPERP's portfolio such as the overweighting in Japan, and the momentum behind the energy and material sector (metals, mining, and steel). She stated the problem is that there is an underweight due to oil stocks going up, and Boston Company is selling and trimming off the energy valuations, as they have gotten very expensive. Mr. Vazquez inquired why the stock returns covering the same period of time are different between WPERP's portfolio and the index. Ms. Kedersha responded that oftentimes Boston maybe holding the American Depository Receipt (ADR), or it is reflecting the local value, or also the currency difference. Mr. Moore inquired if this is what accounts for the big differences in

Mitsubishi UFJ Financial. Ms. Kedersha responded she would have to check on that. Mr. Moore inquired why Royal Dutch Petroleum would not be up with the other oil stocks. Ms. Kedersha responded that Royal Dutch actually did well, but did not make the top ten. She explained that Royal Dutch acquired Shell and these dualistic companies merged, and now the primary listing is in London. She further explained Boston initially only owned Shell in the UK and Shell ran up due to the merger announcement and all the index investors had to get up to their index weighting and Boston then sold Shell and bought Royal Dutch in the Netherlands, which had fallen. She added, not only did Boston Company get the benefit for WPERP's portfolio of that run up by the indexers, however the portfolio still owns Royal Dutch Shell.

Ms. Kedersha reviewed the country weightings, pointing out that in Japan the WPERP has approximately 26% versus the EAFE Plus Canada's 22%. She stated the flip side of being overweight in that particular market is that we are underweight in the United Kingdom, where value is not really there (with the exception of the UK banks and retail).

Ms. Kedersha emphasized the fact that Boston Company is a bottoms-up value manager. She stated the portfolio characteristics, which are value based, paying less than one dollar for every dollar of earnings, and getting a higher dividend for the WPERP. She added because the firm is buying better valuations, the ability to participate in the capital appreciation would be present in the long term. Ms. Kedersha stated, with regards to the economic sectors, Boston Company is well diversified because part of the firm's investment discipline process is they do not want any single country, sector, or individual stock selection decision to adversely impact the client's portfolio.

Mr. Harkins stated when Boston Company comes before the Retirement Board they want to have a portfolio and pay less than an investor investing in the broad market for a dollar of earnings, a dollar of assets, or a dollar of cash flow. He stated for the money that was paid, they want to be getting at least as much dividend yield, if not higher, and at least as much earnings growth rate out of the companies Boston holds.

Mr. Harkins began his presentation on the emerging markets value equity management. He reported in the seven months ending September 20, 2005, the portfolio was up a strong absolute 13.6%, but trailed the index at 15.4%. He explained, as with the developed markets, the months of September and October were very volatile. In September the emerging markets index was up over 900 basis points and fell more than 700 basis points in the month of October. He indicated through that time Boston fared very well, and as of the end of October, the since inception number is 5.6% versus the index at 7.8%. Mr. Vazquez inquired if a drop in basis points like that is normal. Mr. Harkins responded this kind of volatility could happen. He then reported on the annual returns, stating in each of the last nine years Boston outperformed the emerging markets index.

Ms. Kedersha reported that every week Boston Company reviews all of the names in the portfolio to make sure there is not a better name out there having better value characteristics that should be in the portfolio. She added the firm removes stocks that are rich in valuations. Ms. Kedersha indicated four out of the top ten stocks adding

value was in oil. She stated what subtracted value for the index were some South African and technology companies. She further stated that one of the sectors that Boston Company has started participating in is flat screen televisions

Ms. Kedersha reviewed the portfolios country weightings, stating there was overweight in China, a slight overweight in South Korea, and they are beginning to become neutral in Taiwan as they find more consumer led names. She reported they are a little overweight in South Africa but it is coming down, there was an underweight in Latin America, but in Europe the firm has done quite well with Russia. Mr. Vazquez inquired about the overweight in India. Ms. Kedersha responded that India was an area in which Boston Company has been overweight in for several years and up until this year it has paid off quite handsomely. She explained this year it has been a little bit of a struggle because there are two names in the portfolio that underperformed because the government does not allow them to pass on the increased price of gasoline to their consumers. Ms. Kedersha reported, with regards to the portfolio structure, the economic sector weightings are well diversified, but there is an underweight in financials.

Mr. Moore inquired, with regards to the increases in foreign reserves and the tie to industrial production, what is the likelihood of China overextending themselves as the United States did during the 1980s. Ms. Kedersha responded that China has a bigger problem with its banking systems, with regards to bad debts that they have not recognized. To rectify this, China is taking all of the bad loans out of banks and selling off the good banks to the market. The purpose of this is to obtain confidence of foreign investors on banks so those entities can continue to operate and lend in a positive fashion. She added this was going to be a 20-year process. The representatives of Boston Company thanked the Board members and left the meeting.

2. Actuarial valuation and review of the Retirement Fund as of June 30, 2005: presentation by The Segal Company

Mr. Paul Angelo of the Segal Company approached the Board table.

President Romero recognized Mr. Angelo.

Mr. Angelo reviewed the actuarial valuation of the Retirement fund as of June 30, 2005. He pointed out the increase in the employer contribution rate at 4.52% is due to investment return. Mr. Angelo reported the Plan portfolio returned 7.16% and DWP's assumed interest rate is 8%, resulting in a small loss. However, the actuarial value of assets earned only 4.5%. He stated there was an additional unfunded liability of about \$214 million due to past actuarial losses causing the increase in the contribution rate. Mr. Vazquez inquired about the difference between the calculations of the 7.16% versus the 4.52%. Mr. Angelo referred the Board to Page 5 of Segal's report where the actual calculations are reflected.

Mr. Angelo reported even if starting June 30, 2005, the market value earns exactly 8% forever, still over the next three years the WPERP will recognize past actuarial losses of \$210.8 million, which will translate into an increased required contribution of 3.84% of

pay. He further reported approximately 40 basis points (0.4%) of the cost increase is the effect of salary increases greater than what was assumed.

Mr. Angelo reviewed the funding policy, noting that last year there was a discussion regarding the reserving against assets and the Board adopted a policy to set aside 1% of the Plan assets as the non-valuation asset for insurance reserve. He stated that policy was retained this year and currently there was \$62 million that is not counted as a valuation asset. Mr. Angelo explained in the prior year there was a reserve based on realized gains that would have reduced the asset by \$1 billion. He stated Segal Company has concluded that there was no good funding rationale for doing such a thing. However this set up is similar to the California County Retirement Systems. Mr. Vazquez inquired why the \$62 million was there. Mr. Angelo responded it is there because it is in the Plan and is a form of smoothing. Mr. Moore inquired if the Board wanted to remove this at some point, when would be an appropriate time to do so. Mr. Angelo responded if that reserve was eliminated, the valuation assets would be increased by \$62 million, the unfunded liability would be reduced by \$62 million, and the funded ratio and employer contribution rate would increase. Mr. Vazquez inquired why the employer contribution would increase. Mr. Angelo clarified the employer contribution would actually go down.

Mr. Moore moved approval of Resolution 06-14. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

3. Actuarial valuation and review of the Death Benefit Fund as of June 30, 2005: presentation by The Segal Company

Mr. Angelo reported Segal Company was not recommending any changes in what is coming out of the valuation process. However, there is a change in the assumed interest rate in order to set it consistent with the return on investments at 5%. He stated the firm continues to recommend the Department suspend contributions from the Department and maintain the employee contribution rates because there is as much imbalance as there was before and the Plan is substantially overfunded. Mr. Moore inquired if changing the interest rate would delay the point at which Segal might be recommending a Department contribution. Mr. Angelo responded it would actually bring the time closer.

Mr. Angelo stated Segal Company recommends adoption of the continuation of all the contribution levels, which includes officially changing the assumed interest rates for this fund from 8% to 5%.

Mr. Moore moved approval of Resolution 06-15. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

4. Extension of the Plan's Actuarial Services Contract with The Segal Company

Mr. Angelo stated the Segal Company's first contract covered the valuations for the years 1999, 2000, and 2001, and the extension of that contract covered the years 2002, 2003, and 2004. He explained that originally Segal's contract anniversary date was June 30; however, when they did their second three years, the timing issues resulted in extending the contract for 90 days and a September 30 anniversary date. Mr. Angelo stated there is now a discussion of either a one or two-year extension and Segal Company would be happy to continue with DWP for two more years. He indicated the two-year extension would include the July 1, 2005 valuation (just adopted), July 1, 2006 valuation, and the 2001-2006 experience analysis.

Mr. Angelo referred to Segal's agreement with the WPERP on page 4.3 of the agenda packet, wherein all of the proposed changes are reflected. Mr. Moore expressed he would like to continue retaining The Segal Company because he has been very happy with their performance; however, there is an issue he would like either staff or the City Attorney's office to address. He stated he was under the impression that any contract beyond three years had to be rebid. He also wanted to know what the City policy was and the legal requirements with respect to this. Attorney Wilkinson responded that extension beyond three years was allowed if the contract is for special services, but he would look into it further.

President Romero inquired if the Retirement Board needed to approve a contract for the work Segal Company has already done. Ms. Bhatia responded in the affirmative, stating the one-year covering the current evaluation for the report that was presented to the Board needs to be approved. President Romero recommended approving the contract for the work Segal Company has already done for one year and when Attorney Wilkinson comes back with his report another year could be added.

Mr. Vazquez moved for the extension of the Plan's actuarial services contract with the Segal Company for an additional two years to the extent it can be done legally. If not, just for the current valuation in which services have already been rendered. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Vazquez, and Moore

Nays: None

5. Discussion of insurance limits and possible action – presentations by PCA and Risk Manager

Mr. Avery Neaman (Risk Management) and Sarah Bernstein (PCA) approached the Board table.

President Romero recognized Mr. Neaman and Ms. Bernstein. He conveyed PCA's perspective that allows access to top quartile money managers to make more money and at the same time reduce the amount of potential loss. He then conveyed Mr.

Neaman's perspective that if there is a risk there needs to be justified insurance to cover that risk. President Romero pointed out the issue is which the Board feels more comfortable with.

Mr. Moore expressed, with respect to crime coverage, he did not feel volatility makes any difference. He then inquired what types of errors are most common in the areas of errors and omissions or professional liability. He further inquired if it was the type of trades where a manager trades the wrong stock or too much of the wrong stock. Mr. Neaman responded insurance would cover an error in judgment by the investment manager. Mr. Moore inquired what kind of error in judgment would be covered. He stated a manager may choose to allocate funds to one sector versus another or one company versus another, but those are judgments that are made all the time. He expressed his understanding that the error in judgment being discussed is if a manager puts more into a particular sector than they are supposed to based upon the limitations. However, if a manager puts too much into materials versus technology and consequently the Plan loses money, the Plan has no protection from any insurance from that error of judgment. Mr. Neaman responded that insurance covers the Plan if a manager uses bad judgment under errors and omission in the insurance policy. Mr. Moore inquired how could this be covered. He stated, if that is the case, then the Board could go back and start reviewing portfolio performances, and question the judgment of those manager who have not done well, particularly in a down market. Mr. Vazquez commented that managers are allowed to overweight in consumers versus petroleum, and inquired if Mr. Neaman is stating if this happens the Board can go back against them. Mr. Neaman responded if it causes damage it would be covered by the errors and omissions policy. Attorney Wilkinson stated in his survey, the only loss he came up with was a situation with San Bernardino, wherein a manager went beyond their limitations. Mr. Neaman responded if returns trek along with the broader overall market then there would be no coverage. Mr. Moore stated the reason he was pushing the issue is because there seems to be a great deal of debating about the second tier which is the risk of mandate in the two tiered approach, and it is his feeling that it is not that relevant. He stated it was only relevant to the extent that one has an error of omission where because of greater volatility one is going to have a greater gain or loss when that error is made. He reiterated it has never been his understanding that it covers a portfolio manager making a bad judgment in terms of which sector or stock to invest in. Mr. Neaman responded this was the primary purpose the investment managers purchase the insurance. Mr. Moore argued he did not think that any of the investment managers would agree that this is included in their insurance. Ms. Bernstein commented that PCA is not an insurance expert, but when one retains money managers, one is explicitly contracting them to make judgment calls within the constraints of the contract. She stated sometimes the managers make bad decisions and a decision has to be made on whether to keep or replace them. But in the investment world, errors and omissions covers a manager who hurts the Plan by making a judgment beyond the limitations of the contract. She stated most of the errors occur on trading issues and omissions on the execution and operations levels, which are also part of the insurance policy. Mr. Vazquez inquired if Mr. Neaman was stating if a manager is using poor judgment versus the rest of the market then the Department can go after them because they underperformed. Mr. Neaman clarified he was referring to an individual stock or investment decision, and not on overall mandate. Mr. Vazquez further inquired if Mr.

Neaman was stating the insurance would cover the Plan if there is a contract with a manager allowing them to invest in a certain pool of stocks, the manager does so within the limitations of that contract, and it turns out not to be the best decision. Ms. Bernstein stated this was the vested risk one takes. Mr. Neaman responded that if a manager makes an error in judgment in buying in or selling on a timing issue, the Plan would be damaged by that and would have a claim against them and their errors and omission policy would respond.

President Romero inquired if the errors and omissions has been an issue with the present money managers. Ms. Bernstein responded that the professional liability insurance that the Plan currently has is \$50 million minimum regardless of the size of assets. She stated there were managers who indicated this was too high and offered a letter of credit. She added that none of the other large pension plans are carrying that level of professional liability. Mr. Neaman commented that the vast majority of companies DWP works with have far in excess of \$50 million, with the exception of Earnest Partners (a small boutique firm). He stated he did not feel that the limits of liability are really an issue for the money managers. President Romero suggested if the limits of liability comes up as an issue it should be dealt with on a case-by-case basis. However, the waiver of subrogation is more of an issue and is holding back the top quartile managers. Ms. Bernstein indicated her concern was the managers who were eliminated due to the \$50 million liability, such as Delaware (a top tier in the International Market), and not the managers who were actually hired.

Ms. Bernstein indicated there were two decisions the Board needed to make regarding professional liability. She stated the first decision is the structure and whether to adopt any policy. She pointed out there were two proposals under the tiered approach leaving a choice of either going with a tiered approach based purely on assets, or also including the type of asset. Ms. Bernstein informed the Board that whichever approach was chosen the percentage rate would still need to be set. Mr. Neaman reiterated there were two options being presented. He stated option one is the tiered approach (Mr. Neaman's recommendation), and option 2 is a straight percentage based upon assets under management (PCA's recommendation). Mr. Neaman emphasized that due to some concerns of the Board, the \$50 million approach was reduced to \$30 million in the tiered approach.

Mr. Moore noted that WPERP is much smaller than CALPERS and some of the other pension plans who do not have anywhere near the requirements DWP has in most categories of insurance. He expressed he was happy with the current managers, but this was not the relevant issue. Mr. Moore stated what is relevant is how many managers were precluded from being reviewed, which was 40%. He recommended, in going forward, the Board should not penalize themselves if it can be avoided and if not taking undue risk. Mr. Moore pointed out that another issue was time. He stated there were a number of portfolios that did not get invested because of long discussions on the contract, and the biggest issue always seemed to be the insurance requirements. He stated he agreed with the recommendations made by PCA regarding this issue, but he was concerned with the minimum coverage.

President Romero commented that the 40% of managers who were excluded because they did not meet the insurance requirements was not necessarily from the top quartile. Ms. Bernstein clarified that PCA furnishes the Board with a ranked top10 list for each manager search and it was 40% of this list out of each search that did not meet DWP's insurance requirements.

President Romero stated, for the record, with regards to the delays on the insurance, the insurance requirements were stated when the managers bid for the job. Therefore, the delay was a result of them saying they could comply and then failed. Mr. Neaman added that some of the delay was due to the Department's customized forms of proof of insurance, which is not industry accepted. He stated if we cannot accept a firm's certificate and they cannot accept the Department's form then we would be forced to read insurance policies, which takes a while to be issued. President Romero pointed out there are some insurances that may have expired or are in the process of expiring. He stated the issue is what are the requirements for those managers to renew. He also pointed out if there are currently no requirements then the managers are out of compliance. Mr. Neaman responded that the Department has to go by the requirements in the current contracts that are still active.

Mr. Vazquez concurred with Mr. Moore in his preference of PCA's recommendation of being in line with WPERP's peers in the industry. He stated he did not see greater risks in these different mandates just because of the volatility of the return on the assets. Mr. Vazquez stated he did not understand Mr. Neaman's concept with regard to the recourse against the investment managers for selecting a stock that is not a good performer when this is not as an insurable risk. He expressed he did not know what investment managers would want to do business with DWP if that is what the Board's expectations were. He then recommended the Board go with PCA's proposals.

President Romero inquired if the Retirement Office staff had any issues from their perspective. Ms. Bhatia commented that staff sent a letter to all of the investment managers alerting them of the changes regarding the waiver of subrogation and that it is expected they will comply with the other provisions, at least until the term of their contract. She pointed out that any changes made today would not affect the current contracts. Ms. Bhatia noted that PCA presented a report indicating what the insurance provisions were for the other pension plans. She stated the report revealed there were not any standard insurance provisions in the industry. Ms. Bhatia suggested to the Board if they chose option 2, some type of minimum base should be established on assets managed as opposed to the mandate. She explained the fact you are on various mandates implies there is certain risk associated with that mandate. Ms. Bhatia also suggested a gradual approach of going with the percentage of assets managed as opposed to the type of mandate that was invested in. She stated it was similar to what PCA is suggesting, except for Ms. Bernstein's note about accepting whatever coverage is out there. Ms. Bhatia expressed she was not sure if this would provide some element of standard requirement, or what would be the criteria for not following the standard. She stated it would be more consistent to administer if there were some sort of minimum standard based on a percentage applied on assets under management.

bMr. Moore moved to adopt PCA's recommendation to set the insurance limit by a percentage applied to the size of assets but with a set minimum. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

President Romero thanked Ms. Bernstein and Mr. Neaman for their hard work regarding this issue.

Ms. Bernstein informed the Board they needed to set a percentage level. Mr. Vazquez inquired if PCA's recommendation set minimum thresholds. Ms. Bernstein responded she recommends a limited 2% of assets under management with an absolute minimum of \$1 million no matter the size of assets under management. Mr. Moore and Mr. Vazquez expressed they were comfortable with Ms. Bernstein's recommendation. Mr. Neaman recommended a limit of 3% of assets under management because that gives a \$30 million protection for a \$1 billion asset under management. President Romero inquired how another \$10 million would affect the ability to have a money manager. Ms. Bernstein responded that on a tiered scale on the assets it is a much different proposition than \$50 million no matter what the asset size. However, she is not as uncomfortable with that as she is with the existing policy. President Romero suggested going with \$25 million under assets. Mr. Moore moved that the Retirement Board adopt an insurance limit equal to 2.5% of assets under management or \$1 million, whichever is greater. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Ms. Bernstein referred to PCA's recommendations for insurance requirements for investment managers of real estate and alternative investments, including private equity and hedge funds. She stated the recommendation was kept simple by suggesting the Board adopt whatever recommendations they had for the public securities, and with regards to alternatives and private securities, keep the same requirements but have them recommended to, rather than required of, prospective managers.

Mr. Moore moved approval of PCA's recommendation for insurance requirements for investment managers of real estate and alternative investments, including private equity and hedge funds. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

6. Discussion of Retirement Board policy on release of personal information data by the Retirement Office and possible action (deferred from October 19, 2005)

President Romero explained that this item was deferred at the last Board meeting because he was not comfortable with the City Attorney's Office request for member's personal information without a formal court documented subpoena. He expressed he would vote "no" on the new amendment because he was not comfortable with submitting medical information without the employee's knowledge or a subpoena.

Mr. Moore noted the City Attorney who was speaking to this issue at the last Board meeting stated that we cannot, as a City, subpoena ourselves. He agreed with President Romero that the employee should be aware of their information being given to the City Attorney's office as a matter of policy. However, if it requires that the member permit the release of the information then the Board needs to better understand what the consequences are in terms of the City Attorney being able to deal with the legal issues. Attorney Wilkinson responded that the policy is not just for the WPERP, but rather applies to all City agencies and Departments. He stated if the City Attorney needs to have these records the City Attorney and General Manager is responsible for not misusing any of the data. He also indicated the request for information does not violate the Health Information Privacy Act (HIPA) in anyway because it is not disclosing the information to the public. Attorney Wilkinson expressed President Romero's concerns were very well taken in terms of disclosing information to the public. President Romero stated he was concerned the Board may be violating their obligation to the employee, and perhaps the Department's Medical Office would be more suitable for retrieving personal medical information. Attorney Wilkinson responded that the only information that would be requested is what would be needed for the lawsuit. He explained if the lawsuit were regarding a medical issue, the City Attorney's Office would need the information to represent the Department. Furthermore, if the Department has a policy keeping the lawyers from obtaining necessary information then their hands will be tied in defending the City and DWP. Ms. Calvache agreed with President Romero's concerns and stated she gave Attorney Wilkinson's name and number as a contact person for the information. She stated, at this time, her vote would also be "no."

Mr. Moore inquired in what types of lawsuits does this issue arise. Attorney Wilkinson responded that a request for medical records could be a challenge of a denial of disability retirement. He stated if the attorney went to court without the information to represent and defend the actions of this Board, they would lose.

President Romero inquired how often non-subpoenaed information is requested. Ms. Bhatia responded, not very often and it is related to litigation. President Romero inquired how business has been conducted before. Ms. Bhatia responded that the Retirement Office requests the member's consent to the release of the information. She pointed out that the release is provided for in the original policy, which is why the Retirement Office has been requesting subpoenas before releasing the information. She stated formalization of the previous policy where it states information could be released for legal process was needed so that clear direction can be given to staff. Then staff can make a request to the City Attorney's Office in a formal manner, on letterhead, and have it signed by the City Attorney. Attorney Wilkinson stated that it would not be a problem for the City Attorney's Office to do this. He then referred to page 6.3 of the agenda packet in the Water and Power Employees' Retirement Plan policy concerning release of personal data, under "Exceptions." It states ". . . when required by legal process, for

law enforcement purpose, or for litigation involving the City of Los Angeles . . . “ Ms. Calvache inquired if there had been any new laws or changes since the policy was approved by the Retirement Board back in 1987. Ms. Bhatia indicated she requested Attorney Wilkinson to look into the other City pension plan’s practices. She stated if a formal request were included, it would ensure the appropriate controls are in place. This would be consistent with the other pension plans, which release information only for the purpose of defending the Plan sponsor. President Romero commented the original policy is not written very well. Mr. Moore suggested the Retirement Board President and Vice President meet with the City Attorney to work it out.

7. Staff report on concerns with respect to implementation of alternative investments and real estate (deferred from October 19, 2005)

President Romero stated item 7 was deferred for today’s meeting in order for PCA to research it further.

Ms. Bernstein approached the Board table.

President Romero recognized Ms. Bernstein.

Ms. Bernstein referred to a memo on page 7.21 of the agenda packet. The memo summarizes PCA’s perspective and response to a previous memo by Ms. Bhatia to the Retirement Board in which the staff reported certain concerns with respect to implementation of alternative investments and real estate. She expressed PCA feels that staffing is a very important issue for the Plan. However, PCA does not feel it is necessary to wait until a Chief Investment Officer and Investment Officer are hired and in place to implement real estate or alternative investments. Ms. Bernstein explained that the nature of those asset classes will call for a moderate implementation schedule and staff will not be hit with a lot of execution items on capital calls overnight for 5% or 10% of the assets of the plan. She stated PCA recommends continuing with implementation and hopefully the necessary staff will be hired in an appropriate timeframe. Ms. Bernstein indicated PCA has not changed their opinion regarding the asset allocation and feels they provide opportunities to diversify the Plan. President Romero expressed his acknowledgement of staff’s concerns; however, he concurs with PCA in moving forward and also achieving the appropriate staffing levels within the Retirement Office.

Mr. Moore commended staff in their forthrightness in coming before the Board with the memo because the more points of view the Retirement Office receives the better informed they will be. He then requested staff furnish the two articles that were referenced on page 7.2 where Ms. Bhatia mentioned there was a dispute relative to the correlation factor of hedge funds to equities in one article and relative to the risk in hedge funds in another.

Mr. Vazquez noted the Board adopted a real estate policy and strategy, and inquired where things stood on alternative investments. Ms. Bernstein responded that both private equity and hedge funds are separate policies and strategies. She stated private equity would be addressed in the November meeting and following that would be a

follow-up on hedge funds. Next, would be a review of the overall asset allocation because the Board has been deliberating on how to split up alternatives, and what percentage to assign in hedge funds and private equity.

8. Retirement Plan Manager's Comments

RFP FOR EXTERNAL AUDITOR

Ms. Bhatia informed the Board that the Retirement Office received the responses of the RFP for an external auditor. She stated she has discussed with the City Attorney's Office whether a close session could be arranged for the purpose of evaluation. However, she was informed this is not one of the reasons a closed session can be arranged. Ms. Bhatia explained the reason for her inquiry is because the Audit Committee members requested they be actively involved in evaluating the RFPs. She stated generally the initial discussion of criteria takes place prior to presenting the list. There were only four responses to the RFP.

RETIREMENT PLAN MANAGER AND ASSISTANT PLAN MANAGER

President Romero inquired about the interviews for Retirement Plan Manager. Ms. Bhatia responded she was only aware that interviews had been conducted this week. Ms. Calvache inquired if anything was happening with the Assistant Retirement Plan Manager position. Ms. Bhatia responded she had not heard anything.

The Board meeting was adjourned at 11:59 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary