

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

**MINUTES – December 21, 2005**

**Present:**

Javier Romero	President
Lilly Calvache	Vice-President
Michael Moore	Retiree Member
Eugene Canzano	Board Member
Forescee Hogan-Rowles	Commissioner

**Absent:**

Ronald Deaton	General Manager
Ron Vazquez	Chief Financial Officer

**Others Present:**

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Neil Rue	Pension Consulting Alliance
Alan Manning	Assistant City Attorney
Michael R. Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:35 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

**PUBLIC COMMENTS**

Mr. Ronald N. Young (DWP Employee) approached the podium.

President Romero recognized Mr. Young.

Mr. Young introduced himself to the Board as a Shops Superintendent who has been employed by the Department for just over 27 years. He added that having reached the age of 60 he decided to retire. Mr. Young stated he received an estimate of his retirement amount from the Retirement Office on April 14, 2005 via e-mail. The estimate seemed rather high and he emailed the Retirement Office asking if the amount was correct because his ex-wife is to receive a portion of his retirement. Mr. Young stated he was sent a return e-mail stating the estimate was indeed correct and it also included the amount he would be receiving and the amount his ex-wife would be getting.

Mr. Young explained that having taken the estimate in good faith he proceeded to put in his retirement papers and was scheduled to retire the end of July. Plans were made for

a retirement party and people were coming in from out of state. He stated on July 14, 2005, he received a phone call from the Retirement Office stating an error had been made in his retirement estimate and he would actually be getting \$1,751 less per month than he had been quoted. Mr. Young stated after receiving this information he decided to rescind his retirement. Since then he has filed a grievance with the Department that falls into three parts. Part 1 is that he be made whole for the amount that was originally quoted to him, or some kind of negotiated compromise between the Department and himself. Part 2 is that he be made whole for any legal fees regarding his negotiations with his ex-wife over the amount that was first quoted, and the current corrected quote. Mr. Young expressed that Part 3 is that the entire retirement system needs an overhaul as far as how employees are notified of their retirement estimate. He expressed there needed to be some kind of checks and balances installed in the retirement system. He further stated any quotation of an estimate should be checked by a supervisor because employees make life changing decisions based on those estimates. For example, he and his wife went to Scotland and contemplated buying a home to retire to, and those plans are now obviously on hold.

Mr. Young stated the amount in Part 1 of his grievance is something he would need to negotiate with Water and Power rather than the Retirement Board. He stated Water and Power told him that they have no jurisdiction over the Retirement Board. However, his objection is based on the fact the Retirement Board and the Retirement Office are staffed by Department employees so there has to be some kind of responsibility somewhere when errors are made.

Mr. Young informed the Retirement Board that he would be going through with the process of the grievance and wanted to bring the matter to the Board's attention. He stated, at this point, he has not contemplated legal action and would rather it be resolved without lawyers. However, he believes there should be some accountability by both the Department and the Retirement Office.

President Romero thanked Mr. Young for his comments and apologized for the ordeal he has been going through. He informed Mr. Young that public comments does not allow the Retirement Board to engage in a discussion, but the Board would look into this matter.

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

- 1. Approval of Board Minutes for November 2, 2005 (Regular Board Meeting)**
- 2. Termination from Monthly Rolls as of December 2005:**
  - Retirement Resolution for December 2005**
  - Resolution terminating Verna Creciat and Valerie Hawkins from the December 2005 Survivorship Roll as a result of their deaths**
  - Resolution terminating Lilliane A. Fairfield from the December 2005 Survivorship Roll as a result of her death**
  - Resolution terminating Jacqueline Johnson from the December 2005 Survivorship Roll as a result of her death**
  - Resolution terminating Pauline Gibilisco from the December 2005 Survivorship Roll as a result of her death**

President Romero referred to page 2.1 of the Board agenda package and inquired why two of the names in the Retirement Roll were listed twice. Ms. Bhatia responded there were different funds, but she would look into the specifics of the names that were listed twice.

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

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore

Nays: None

- 3. Report of Payment Authorizations as of November 2005**
- 4. Notice of Deaths for November 2005**
- 5. Report on Status of Insurance**
- 6. Summary Investment Returns as of November 30, 2005**
- 7. Market Value of Investment by Fund and Month**
- 8. Market Value of the Retirement, Death & Disability Funds as of November 30, 2005**

President Romero reported items 3 through 8 were submitted as having been received and filed. He indicated he had a question regarding the overpayments for administrative fees on page 3.1 and 3.72 of the Board agenda package. He noted there was a refund to the Power System that was close to \$1 million and another refund to the Water System for approximately \$500,000. He then inquired if these were administrative fees that were paid up front and what is not used is refunded. Ms. Bhatia responded in the affirmative, explaining that the administrative expenses are budgeted up front, and the Department is billed every month, and at the end of the year refunds are compared with the budget and refunds are issued if applicable. She added that this year's refund is a result of vacancies for the Assistant Plan Manager and Systems positions that were never filled, and certain programs that were not funded.

Mr. Moore noted that at the last Board meeting the insurance status of the various portfolio managers was discussed, along with staff and the contract administrators contacting the managers and making them aware of the need to quickly provide proof of insurance for expired policies. He stated there was also discussion about staff getting back to the Board on that issue and he did not recall what the timeframe was going to be in doing so. Ms. Bhatia indicated she had been updated on the insurance issue. She stated since the transition to this new method of managing, Risk Management has been doing the follow up and the Retirement staff gets involved at the point where two notices have been sent out. Ms. Bhatia informed the Board that when the insurance documentation is presented by the Investment Manager, it is Risk Management that actually has the expertise to determine whether the documentation submitted is appropriate.

Ms. Bhatia indicated that a few months ago staff sent letters to the managing firms to follow up on expired insurance. She indicated the report for the Board is prepared ahead of time and in the last few days there may have been changes made. However, the Retirement Office would not necessarily be aware of such changes immediately because the insurance paperwork is presented to the Risk Management Section and they reviewed and approved.

Ms. Calvache inquired who the contract administrator is in the Retirement Office. Ms. Bhatia responded she was. Ms. Calvache inquired at what point does the Retirement Office step in when a manager's insurance is expiring. Ms. Bhatia responded that the Retirement Office gets involved after the 3rd notice has been sent and no response has been received. Steps that are implemented include: contacting the investment manager, stopping the processing of fees, and sending out letters. She added the Retirement Office assists Risk Management in getting the investment managers back into compliance.

Mr. Moore commented that the procedure needed tightening up. He suggested the employees responsible for the account be made aware of the problem and not just the insurance people. He expressed there should not continue to be a situation where six months lapses. Ms. Bhatia responded she would look into procedures that can be implemented. However, the expertise still rests with Risk Management, who should communicate with the Retirement Office as to what kind of assistance they need. Mr. Neaman commented that Risk Management takes the lead in all the activities and forwards a copy of all documents to the contract administrator.

President Romero requested an improvement on the process in writing. He also suggested opening the window between the first and third notice to give staff time to call the managers and notify the Board before the insurance actually expires. Consequently, this will put heat on the money managers and let them know the Board may take action and they may lose their contract with DWP.

Mr. Moore moved the above items 3 through 8 be received and filed. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore

Nays: None

## **9. Asset Allocation within Alternatives Asset Class for possible Board approval**

Mr. Neil Rue and Sarah Bernstein of Pension Consulting Alliance (PCA) approached the Board table. Ms. Bernstein indicated that the package included the final versions of the private equity and hedge funds policy and strategy. She noted the Board had already approved the real estate policy and strategy.

Ms. Bernstein stated item 9 is to address any outstanding issues, or the Board may decide to wait and deliberate as they receive more education and are more comfortable with the issues involved in these new alternative areas. She informed the Board they need to decide how much of the alternative allocation, which has 5% of the total portfolio, will be allocated to private equity investments and how much to hedge fund-of-funds. Ms. Bernstein explained that PCA's memo on page 9.1 of the agenda package quickly runs through what the implications are of having various ratios in private equity or hedge funds. She stated PCA is recommending 4% to private equity and 1% to hedge funds. Ms. Bernstein explained, with regards to alternative investments, one of the primary reasons for originally allocating to this field was to give a little diversification and higher risk return exposure. She stated the hedge fund-of-funds approach will be a relatively lower return than what can be expected out of private equity, which will bring down the overall expectation out of the alternatives asset class. She stated PCA wants

to make sure the Board is aware of this and considers those elements in their allocation decision.

Mr. Moore moved approval of the asset allocation within alternatives asset class. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore  
Nays: None

#### **10. Private Equity Policy for final Board review and approval**

President Romero introduced item 10 as the private equity policy for final Board review and approval, noting it was subject to a few changes from the last Board meeting. Ms. Bernstein stated the primary changes discussed in the last meeting was to have the policy and strategy allow the Plan to only invest in fund-of-funds in private equity. She indicated PCA made all of these edits in the final draft.

Mr. Moore referred to Exhibit 2 on page 12 of WPERP's Private Equity Investment Policy, which to him looks more at partnerships, rather than fund-of-funds. He pointed out that under types of investments it talks about the various types and fund-of-funds is listed as an additional. Ms. Bernstein indicated this had already been discussed and a decision was made to leave it because all of the fund-of-funds can have exposure to the different types of strategies underlying it including partnerships. Ms. Bernstein stated she felt this was appropriate and it did not conflict with the Plan's broader policy statement of putting all the private equity money into fund-of-funds vehicles.

Mr. Canzano referred to page 5 of the policy under "International", wherein it states, "However, secondary market fund-of-funds may have limited exposure to international investments within their diversified portfolio." He then commented that the whole point is if they have a small amount invested outside of U.S. we can still do it, but if that alone is our focus then we should not. Ms. Bernstein responded in the affirmative, adding that as individual fund-of-funds come before the Board to be discussed, that will be an element that is part of the due diligence review and a question for the Board. PCA will not bring something before the Board that has 50% international in it, or even 20%.

Mr. Moore moved for approval of the private equity policy. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore  
Nays: None

#### **11. Private Equity Strategy for final Board review and approval**

Mr. Moore moved for approval of the private equity strategy. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore  
Nays: None

## **12. Hedge Fund Investment Strategy and Policy for final Board review and approval**

Mr. Moore commented the Retirement Board was less clear with hedge funds than with private equity, with regards to fund-of-funds. He referred to page 3 of the hedge fund investment strategy and policy where it talks about investing in funds through partnerships or other formation structures. He then inquired if this was related to partnerships or was this talking about fund-of-funds. Ms. Bernstein responded that the generic would be a partnership even at the top fund-of-funds level.

Mr. Canzano referred to page 4, section 2b of the investment strategy and policy and inquired if the marketable non-U.S. debt securities still fell within the policy. Ms. Bernstein responded in the affirmative, adding the Board will be able to have some flexibility for international exposure and that is why it was left in there. Mr. Rue commented that the fund-of-funds would be investing in all of the underlying hedge funds. Commissioner Hogan-Rowles inquired if PCA would come back before the Board and present a summary of what percentage would be invested internationally versus non-U.S. and how frequently. Ms. Bernstein responded, for private equity and hedge fund-of-funds, the process for selecting a manager would be slightly different. She explained that for private equity PCA will bring individual managers that are appropriate and a good fit for WPERP's Plan and then the Board will interview them. But before they are brought before the Board, PCA will do a complete due diligence review on the firm, which will include if they meet the investment criteria for the Plan. Part of that is what their framework and policy is for how much they are allowing to invest in overall, how much they typically invest internationally, what their exposure is, and what kind of fund-of-funds they will buy into. She added the same goes for hedge funds; however, the process for selecting a manager would be slightly different. Ms. Bernstein further explained that PCA will go through a more traditional process, looking at a lot of hedge fund-of-funds at one time, narrowing it down to a short list, and then the Board will review those and interview as many candidates as they choose. In monitoring these funds, the Board will receive updates; however, private equity is lagged because it is not public stocks, so the details will come later than with public security managers. Ms. Bernstein informed the Board they will receive information on which funds they have invested in and the overall exposure to various areas, including international issues.

Ms. Bernstein expressed if any of the Board members are ever in a situation of facing a decision or issue and are not comfortable, this means PCA has not explained it well enough. Therefore, it is important that the Board raise questions. Ms. Bernstein also offered to sit down with Commissioner Hogan-Rowles and walk her through some of the information that the rest of the Board has already received.

Mr. Moore moved for approval of the hedge fund investment strategy and policy. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore  
Nays: None

### **13. Resolution extending The Segal Company contract**

President Romero introduced item 13 and noted the issue had been discussed by the Retirement Board a couple of meetings ago. He stated the resolution for this item is to extend Segal's contract in order for them to finish the work they had commenced up until June 30, 2006. At that point, staff would submit an RFP before the contract expires.

Ms. Calvache moved to approve Resolution 06-31. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore

Nays: None

### **14. Revised Insurance Provisions for Existing and Future Investment Management Contracts**

President Romero introduced item 14 as a resolution to revise insurance provisions for existing and future investment management contracts.

Mr. Moore expressed a concern that came up in an Audit Committee meeting regarding a fidelity bond requirement for both the auditor RFP and a similar requirement for the information systems that is currently out. He stated the existing auditors only had a \$2 million requirement, it was basically a quintupling of the requirement, and did not seem to be necessary to the committee. The Audit Committee requested staff reissue the RFP in an amended version so the bond requirement could be lowered if this was decided. Mr. Moore expressed he was uncomfortable with the \$10 million for the fidelity bond and is concerned when he hears vendors saying they have never paid that much before. He emphasized he did not want to put out requirements that are in excess of what is generally expected in the industry if it will preclude bidders due to it being too much cost and a hassle.

Mr. Neaman responded that item 14 is regarding investment manager contracts. Mr. Moore stated he was speaking more broadly than that and did not have any problems with what the Board has done with respect to the investment managers. He reiterated he was troubled with the \$10 million item and was not aware of it at the time the auditor RFP originally went out. Mr. Moore indicated that at a previous meeting, wherein the information system RFP was discussed, he was under the impression that staff was going to check it out. However, he has not received any feedback whether or not that would preclude firms from bidding on that particular RFP. He requested assurance that firms will not be kept from competing unnecessarily and process be developed by which to ensure this does not continue to happen. Ms. Bhatia responded, with regards to the auditors Request for Proposal (RFP), the insurance requirements were amended and staff re-advertised and reposted it on the website after last week's Audit Committee meeting. As far as the RFP for Information Systems, she planned to bring it back as an agenda item for the January Board meeting because as action is required to change it. President Romero suggested, in going forward the new contracts, the Board should be a part of the process as to what is acceptable. Ms. Bhatia mentioned, with regards to the information system, staff sent out a Request for Information (RFI) to approximately 10 firms. Once the Board rules that the insurance provision must be changed then staff will contact the managers and make them aware of those changes. However, the advertisement would have to be redone. Mr. Moore inquired of Mr. Neaman if the \$10

million fidelity bond precluded managers from bidding. Mr. Neaman responded in the negative, adding that \$10 million was a relatively low limit.

Mr. Neaman indicated he had just seen the agenda package for the first time yesterday and referred to page 14.10 and 14.12 where E, F, and G would need to be deleted because it is duplicative of what is in the newer language and was somehow extracted from the older language. He also expressed his concern that if the new policy is effective immediately it would be implemented for the existing investment manager contracts as well and would the Board have a legal right to request additional limits. Mr. Moore pointed out that the contracts were not being amended and currently it specifically states \$50 million is required. He then inquired if a manager has a liability policy of \$80 million, the Department only requires \$50 million and requests they provide the \$80 million, would this incrementally increase the liability coverage they have with the carrier due to additional exposure. Mr. Neaman responded there would be no additional cost. Attorney Wilkinson responded he would get back to the Board on that issue.

Mr. Neaman requested that the Board grant staff and Risk management flexibility in drafting letters to the managers regarding changes in requirements that the Board is agreeing to today. President Romero responded he did not see a problem with Mr. Neaman's requests and hopefully all the managers respond. If not, the Board would take everything on a case-by-case basis. Mr. Moore commented that given the fact Attorney Wilkinson wants to take a look at this, he did not feel the Board needed to rush on this. He suggested the City Attorney's office and Mr. Neaman look this over and bring it back to the Board with the appropriate changes. President Romero noted that no action would be taken on item 14 until the Board receives feedback from counsel and Risk Management.

Ms. Bernstein inquired how long the existing investment manager contracts are stated for. Ms. Bhatia responded three years. Ms. Bernstein stated her perspective was that requirements be made equally effective at the same time for all new insurances as managers come up for renewal and are out of compliance. She expressed it is important to get the City Attorney's view of how best to manage this and make it as flexible as possible for staff and Mr. Neaman to implement. President Romero requested Attorney Wilkinson have a response for the Board by the next meeting.

**15. Resolution authorizing the renewal of Attorney Michael Wilkinson's Membership in the National Association of Public Pension Attorneys (NAPPA)**

Mr. Moore moved approval of Resolution 06-33 authorizing the renewal of Attorney Michael Wilkinson's Membership in the National Association of Public Pension Attorneys (NAPPA). Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Hogan-Rowles and Moore  
Nays: None

Mr. Neaman left the Board meeting. Mr. Rue and Ms. Bernstein returned to the audience.

## **16. Retirement Plan Manager's Comments**

### **a) DWP Plan Newsletter for Retirees (December 1, 2005, Edition)**

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

### **b) Memo from Water and Power Commission regarding letter from John E. Hill**

Ms. Bhatia noted that a letter from Mr. John Hill was forwarded to the Retirement Office staff from the Commission Office and was included in the Board package.

### **c) General Items**

Ms. Bhatia informed the Board that the Retirement Office hired a new Investment Officer, June Kim. She stated Ms. Kim comes from the private sector with excellent experience. The Retirement Board welcomed Ms. Kim.

## **17. Future agenda items**

Public comments were reopened.

Ms. Merle Greene, a Clerk Typist from the DWP Retirement Office approached the podium.

President Romero recognized Ms. Greene.

Ms. Greene stated she wanted to discuss an issue of confidentiality in the Disability Section of the Retirement Office. Dr. Wong (DWP Medical Director) suggested she come speak before the Retirement Board. She indicated when the problem first arose she spoke to Ms. Bhatia, it was acknowledged and changes were made. However, the problem has not been completely resolved and continued. At that point, she went to the union and Shawn McCloud (Local 18 IBEW) met with the head of the Disability Section and she believed Ms. Bhatia.

Ms. Greene explained that last Friday, while still on disability, she was contacted by the Disability Section and informed she could pick up a memo to get an advance from the DWP Employee's Association. She stated on Monday when she returned to work she went to the Disability Section to get the memo and found it taped on the wall for anyone to see. Ms. Greene stated she spoke to Ms. Bhatia about this and was led to believe by Ms. Bhatia that she did not consider this a problem and did not really care. Ms. Greene expressed she herself does care and feels she has a right to confidentiality when it comes to disability and having her personal information taped to a wall where everyone walking by can read it.

President Romero informed Ms. Greene that public comments does not allow the Board to discuss an item that is not on the agenda. He apologized to Ms. Greene for her issues of confidentiality and what she is going through and stated the Board would be looking into the matter.

**18. Closed Session Under Section 54956.9 of the Government Code to confer with the City Attorney regarding possible litigation involving Time Warner, Inc. and AOL**

Members of the Public left the room.

[Closed session took place at 10:30 a.m.]

The Board meeting was adjourned at 10:50 a.m.

---

JAVIER ROMERO  
President

---

SANGEETA BHATIA  
Secretary

---

IRENE COLON  
Recording Secretary