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

MINUTES – February 1, 2006

Present:	
Javier Romero	President
Lilly Calvache	Vice-President
Michael Moore	Retiree Member
Eugene Canzano	Board Member
Ron Vazquez	Chief Financial Officer
Forescee Hogan-Rowles	Commissioner
Absent:	
Ronald Deaton	General Manager
Others Present:	
Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Pamela Alsterlind	Pension Consulting Alliance
Michael R. Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:41 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero inquired if there were any public comments.

There were no public comments.

President Romero reported item 1 is submitted for consent approval as follows:

1. **Approval of Board Minutes of December 21, 2005**

Mr. Moore referred to the first paragraph on page 1.8 of the Board agenda package. He requested the phrase "on the 16 packages that are currently out" be omitted because that was not what he was referring to. He then referred to the second paragraph of page 1.8 and requested the phrase, "would this incrementally increase the liability coverage", be changed to state, "would this incrementally increase the cost of the liability coverage".

Mr. Moore moved adoption of the above item 1 on consent with the noted changes. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Nays: None

2. Response to Public Comments by Milorad Marinovich on January 18, 2006

Mr. Moore expressed he was surprised in terms of the applicable law (Terminable Interest Rule) with respect to Mr. Marinovich's issue. He stated it appears that the Retirement Board's hands are tied and inquired how long the rule has been in place. Attorney Wilkinson responded that Mr. Marinovich's case was at the end of the Terminable Interest Rule in 1987. He stated the only other option Mr. Marinovich has is to go back to Court and see if they will overturn it because the Board has no discretion at all.

Mr. Moore inquired if members going through a divorce are informed of this provision. Attorney Wilkinson responded he works very closely with Plan staff on divorces and he believes staff does a very good job of clearly communicating what the rights of the parties are. He stated staff also does a good job with working with members on domestic relation orders, which lays out what the parties are to receive. Attorney Wilkinson expressed his feelings that sometimes problems arise with the older cases that are drafted because they are not using the standard provisions and therefore are not as clear as they could be. Mr. Moore inquired if WPERP's standard provision speaks to this issue. Attorney Wilkinson responded the WPERP provision clearly lays out what each party is to receive. Ms. Bhatia commented when the Retirement Office receives the dissolution orders or judgments they are reviewed, and the provisions are defined and explained to the member. She indicated Mr. Marinovich's case was old and was at the time the Terminable Interest Rule ended. Attorney Wilkinson explained the normal process is that, if upon first contact the member does not already have a form, the City Attorney's Office provides the sample provisions that fits into the DWP Plan, since it has many unique provisions.

Mr. Canzano moved the above item 2 be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Nays: None

3. Investment Manager presentations – High Yield Fixed Income
- Wells Capital Management

Mr. Niklas Nordenfelt, Investment Strategist and Mr. George Matthews, Senior Relationship Manager of Wells Capital Management approached the Board table.

President Romero recognized the representatives of Wells Capital Management.

Mr. Matthews provided the Board with a brief update in terms of assets under management. He reported Wells Capital ended the 2005 with $174 billion of assets under management. The initial funding of the Plan's mandate on November 12, 2004, at $103 million had grown to $106, 364,606 by December 31, 2005. Mr. Matthews stated, at this time Wells has no suggestions in terms of changes to the Plan's guidelines. Mr. Vazquez inquired what Wells does to determine compliance with the guidelines. Mr. Matthews responded that Wells has a team that monitors guidelines with respect to WPERP's portfolio holdings. He added the firm is informed if there is a violation or a security that falls out of guidelines due to a ratings change. He added, at that point, they would make suggestions to the Board. Mr. Matthews reported in the 4th quarter Wells outperformed the benchmark by 64 basis points, and for the year the portfolio has outperformed by a total of 36 basis points. Ms. Bhatia inquired about the net of fees performance. Mr. Matthews stated he would submit this.

Mr. Nordenfelt provided the Board with an overview of Well's philosophy and guiding principles in their investment process. He reported the downgrade of General Motors to High yield was the trigger event that pushed the spreads wider. He stated the spreads went from an all time low of 280 basis points to a high in mid-May of approximately 450 basis points. The returns in March/April were down considerably for the High Yield asset class. He stated since Wells felt the market was rich they wanted to position the portfolio with less risky securities by having less exposure to the lower part of the credit qualities, less triple "C" rated bonds, and move up in the capital structure. He added they also wanted to avoid blowups, given there would not be many opportunities to offset those.

Mr. Nordenfelt reported that in the first half of 2005, Wells underperformed the benchmark by 81 basis points and the second half was offset by a gain of 117 basis points.

Mr. Nordenfelt stated what added positively to performance in the first half of 2005 was exposure to loans (leverage, term, and bank), and reducing exposure to CCC's, which underperformed in the market. He stated the negative performance was due to the portfolio being in short duration. There was a treasury rally, and having the lack of exposure to the really long end of the market, which was the best performing part of the market was a drag on performance. He stated the holdings in General Motors had a negative impact and the technical impact of the downgrade was significant to the GMAC bonds that went from Par down to 80. Mr. Nordenfelt pointed out that the potential fraud of Levitz Furniture Company was also a negative factor and Levitz is now trading $.05 on the dollar. He added there could possibly be lawsuits as a result of this. Mr. Vazquez inquired what the magnitude of the portfolio's exposure to GM and Levitz was. Mr. Nordenfelt responded the Levitz position was approximately 40 basis points of the portfolio, hurting the position over the course of the year by 30 basis points. Commissioner Hogan-Rowles inquired what this meant in terms of dollars. Mr. Nordenfelt responded that 30 basis points on a $100 million equates to $300,000. He stated the GM exposure had a 30 basis point impact as well. Mr. Vazquez inquired if this was the primary reason Wells lost 85 basis points. Mr. Nordenfelt responded in the affirmative. Commissioner Hogan-Rowles inquired what the Levitz lawsuit means to

WPERP in terms of recouping a loss that may have been incurred. Mr. Nordenfelt stated he did not want to state “there will be a lawsuit”, but there are things going on behind the scene, and he would not anticipate getting anything near to Par in a recovery. He added there would not be a big positive outcome of the Levitz issue. Mr. Moore inquired if the portfolio still retains GMAC. Mr. Nordenfelt responded in the affirmative, explaining the exposure to GM is now almost exclusively in the GMAC exposure. He stated Wells feels strongly positive about GM’s intent of selling GMAC to an investment grade company and its eventual upgrade could have good upside potential.

Mr. Nordenfelt reiterated, the second half of 2005 had a positive performance with 117 basis points. He indicated all the positive performance came from out performance by the sector, which is called “positive credit selection” within the sector. The shorter duration exposure helped a little, loans continued to do well, along with the build-up of the research team. Commissioner Hogan-Rowles inquired what percentage of the portfolio is used as loans capital. Mr. Nordenfelt responded 11%. He summarized Well’s investment theme as lowering risk by reducing CCC exposure, increasing loan exposure, shorter duration bonds, and avoiding downside credit quality issues. Commissioner Hogan-Rowles inquired what red flag indicators Wells now sees in hindsight that could have prompted them to change the portfolio with regards to GMAC and Levitz. Mr. Nordenfelt responded, in retrospect, the Levitz issue was not foreseeable. He explained that Wells did not fully appreciate the technical impact that happened with the downgrade of GMAC. He stated Wells is not bullish on GM’s operations and their place in the market. He further stated GM has a tremendous amount of cash on hand; therefore, Wells felt comfortable with the position from a credit perspective, but did not fully anticipate the downgrade impact.

Mr. Nordenfelt provided the Board with themes for 2006. He stated fundamentally Wells feels the economy is in good footing, specific to comparing high yield with bonds. He reported balance sheets are significantly improved, there is a lot of cash on hand, default rates are at low levels, and Global GDP growth is solid. However, there are a number of risks. He listed them as a drop in spreads from 360 basis points to 325, leverage buyout risk, and shareholder friendly actions.

Mr. Nordenfelt summarized what type of returns Wells expects for high yield. He stated the firm feels cash will be difficult to beat for high yield and it is expected to produce approximately 4.5% to 4.75% in returns. High yield is going in with interest of about 8% and returns are expected to be approximately 3% to 5%. He added that some price depreciation is anticipated. Consequently, there is not a demand for new allocations to high yield. He reported that loans are expected to produce returns in the 6% to 7% range.

Mr. Nordenfelt reviewed the overall strategy of the portfolio for 2006. He stated since Wells feels cash will be difficult to beat in 2006, they are looking to “hide” in the safe places (shorter duration and bonds trading above or near the call price), and monitor the likelihood of potential leveraged buyouts. Mr. Vazquez referred to a graph on page 16 of Well’s presentation booklet reflecting the differential between the high yield index and loan index. He noted the graph shows a gain of approximately 1% by going to high yield bonds versus loans. Mr. Nordenfelt responded that currently the yield advantage to being in loans is 1%, but Well's expectation is that this does not become realized in going forward. He explained that since the differential is so small, Wells does not think there is a whole lot of advantage in buying the high yield bonds relative to a loan. He stated, in summing up the overall position, Wells is taking the "barbell strategy", where one has most of the portfolio in low risk enhanced cash positions, higher in the capital structure, and higher rated bonds (BB as opposed to CCC). However, there are also opportunities in the riskier part of the market, such as, selecting distressed names and longer maturity bonds. Mr. Vazquez inquired about the terms of the loans. Mr. Nordenfelt responded that loans are callable at anytime. He explained that the loans are typically issued with 5 year maturities, but callable at anytime at par.

Mr. Matthews and Mr. Nordenfelt left the Board meeting.

4. Core Real Estate Open-End Fund Investing Review – Presentation by PCA

Ms. Pam Alsterlind of Pension Consulting Alliance (PCA) approached the Board table. President Romero recognized Ms. Alsterlind.

Ms. Alsterlind began by reminding the Board that a policy and investment plan was approved back in October 2005 for the real estate asset class. She stated the allocation was 4% of the total fund. At that time, PCA recommended focusing on the core sector of the real estate market. She then presented the Board with summary information on the core sector and the steps to follow.

Mr. Vazquez inquired about the difference between gross asset value versus net asset value. Ms. Alsterlind responded that gross means gross value of the real estate and net means after the deduction of leverage. Mr. Vazquez inquired how the gross asset value is determined and how often it is marked to market. Ms. Alsterlind responded that typically the gross asset value is marked to market once a year and sometimes firms perform internal quarterly evaluations. She stated the industry is pushing them to mark to market quarterly, but that is a process that will occur over time.

Mr. Moore noted that in the summary information chart on page 7 of PCA's booklet, under Fund N, it states "Exit queue (1)" in the queue status column. He then inquired if this was a red flag. Ms. Alsterlind responded it was a possible red flag and was something that needed to be looked into when doing due diligence. Mr. Vazquez noted on this same chart, the current leverage for Fund F is in excess of the maximum leverage, and inquired how this happens. Ms. Alsterlind responded that the investment manager did go above the maximum and this is something that would have to be looked into and cured. She explained that even within the policy an investment might go outside a range for a little while but then there is a cure period.

Mr. Moore inquired when PCA is evaluating the fund, whether they view the balance between office and retail real estate as being a significant issue. Ms. Alsterlind responded that PCA would question the investment manager about what they are doing and what their long-term plan is. She stated right now in looking at the markets PCA is concerned about office and retail real estate and if they are going to continue their current course. She added that apartment and industrial real estate are more defensive and not as volatile. She stated if PCA had a different opinion they would bring it before the Board for discussion.

Mr. Canzano noted that apartments have the least risk and highest return in a 15 year period. He then inquired if PCA was considering to be more heavily weighted in that sector. Ms. Alsterlind responded for the WPERP just starting out in these types of funds, PCA is looking for as much diversification as possible. She added this was not a fund she would recommend because it is only apartments. However, she would be open to all RFI responses.

Ms. Alsterlind expressed she wanted to give the Board more detailed information from an educational standpoint. She stated she plans to submit a written Request for Information (RFI) and timeline to the March 1 Board meeting. She further stated PCA currently has the fund information, but it is important to go back and get the details on the firm.

Mr. Vazquez inquired how the compensation of the funds is generally made. Ms. Alsterlind responded there is typically an asset management fee and then performance fee based on returns over NCREIF or hard return hurdle.

Mr. Moore commented that so far PCA has given the Board a feel for how the open ended funds have performed on a yield basis. But this does not give the Board a measure of their valuations in terms of price. He expressed this information would give him comfort that the Plan will not be paying top dollar. Ms. Alsterlind responded that she has shown the Board the income and total return. She stated what Mr. Moore is referring to, with regards to price, is the appreciation return, which she could break down to specifics. However, the appreciation is what is changing based on either sales or the appraisal. Ms. Alsterlind proposed she provide the Board with further information on March 1.

Ms. Alsterlind returned to the audience.

5. Consideration and adoption of guidelines for the election of Active Member representatives to the Water and Power Employees' Retirement Plan Board

Mr. Canzano referred to page 5.4, section 3 of the agenda package regarding the nomination of candidates. He pointed out that in reading this section it does not specify if the nomination signatures need be from the respective organizations. Ms. Bhatia responded that the nominations must be from the respective organization the employee is representing. She stated this is indicated in the memo to the Board in section 6. She added it does not clearly specify the nominations, but rather talks about election from each of the groups. Ms. Bhatia stated she would research this further and bring it back before the Board.

Mr. Canzano referred to page 5.5, section 7, wherein it states, "Said ballots shall provide an appropriate blank space in which any voting active employee member may write in the name of an active employee member from the Power System . . ." He stated it was his belief that it should be all three systems within DWP. Ms. Bhatia thanked Mr. Canzano for pointing this out.

Mr. Canzano noted there was a problem with the previous election, resulting in two elections. He inquired who would be checking the accuracy of what the City Clerk's Office will be mailing out this time. Ms. Bhatia responded the Retirement Office does not get involved in elections, but works with the City Clerk's Office in providing the mailings. She stated there was a previous issue, but the Retirement Office would be working closely with the City Clerk's Office to ensure they have the labels on time. She further stated it is her understanding that the previous problem was concerning the terminology of RI (Retirement Identification) numbers as opposed to employee numbers, which is why the ballots had to be resent. Mr. Canzano pointed out there was another issue regarding writing in the name of the candidate. Ms. Bhatia responded this was a matter of editing the form. She stated staff would make sure the materials are accurate, but the actual election is conducted by the City Clerk's Office to ensure there is independence in the process.

Mr. Moore inquired if there had been any changes in the election guidelines for the last vote. Ms. Bhatia responded that the guidelines in the agenda packet were the same ones adopted by the Board when the election was conducted for the unexpired term in which Mr. Canzano was appointed. Mr. Moore referred to section 10 of the guidelines and stated when members vote in a regular election they are allowed to vote in for a candidate from each system (water, power, and joint). But, in a special election they are only allowed to vote from the system they are in and this seems inconsistent. Ms. Calvache stated she recalled that everyone was able to vote in the special election. Ms. Bhatia clarified that the candidate has to be from their own system.

Mr. Vazquez inquired about the timeline of the election. Ms. Bhatia responded that resolution 06-41 approving the guidelines will give her the authority to work with the City Clerk's Office and obtain the timeline, which will be submitted to the Retirement Board and Board of Commissioners. Mr. Vazquez inquired if resolution 06-41 applies to the rule and regulations of the election. Ms. Bhatia responded in the affirmative. Mr. Canzano inquired if the deadline was May 1, 2006. Ms. Bhatia responded that the election should be held by May 1, 2006.

Mr. Canzano moved for approval of the guidelines for the election of the active member representative to the Water and Power Employees' Retirement Plan Board with the noted changes. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Nays: None

6. Retirement Plan Manager's Comments

a) General items

Ms. Bhatia noted that staff is attempting to set up an Audit Committee meeting for February 15, 2006, pending the committee members availability. She requested the committee members respond with their availability so staff can set up the last presenter and the selection of an auditor can be finalized.

Ms. Calvache inquired about the status of the Benefits Committee. She indicated the committee members had not met in a long time and requested a report on any pending appeals. Ms. Bhatia responded that staff has been proactive in holding the Benefits Committee meeting whenever there is an appeal. She stated she would check to make sure there is nothing pending. She explained that if the cases are resolved and there are no requests for appeals then there is no reason to hold a Benefits Committee meeting.

Mr. Canzano inquired if the new pension computer system would have detected the error in Mr. Ronald Young's retirement calculations. Ms. Bhatia responded, as far as the status on the pension information system, the RFI had been issued and she reported at the last Board meeting that the insurance clause had been revised. She stated the RFI had been readvertised, revisions were sent to those selected to respond to the RFI, and it was also posted on the website. Ms. Bhatia informed the Board that the last date to respond to the RFI is February 23, and the responses would be brought to the Board.

Ms. Bhatia stated, with regards to the estimate provided to Mr. Young, there is no new system in place, so it is difficult to determine whether the error would have been detected. However, the computer system would limit the amount of manual work and help catch errors of that nature. Ms. Bhatia noted that she provided a report responding to Mr. Young's public comments in the last Board package.

The Board meeting was adjourned at 11:16 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary