

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

MINUTES – June 21, 2006

Present:

Javier Romero	President
Eugene Canzano	Vice-President
Michael Moore	Retiree Member
Cindy Coffin	Board Member
Ron Vazquez	Chief Financial Officer
Forescee Hogan-Rowles	Commissioner
Ronald Deaton	General Manager

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Sarah Bernstein	Pension Consulting Alliance
Pam Alsterlind	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney
Paul Mouchakka	Pension Consulting Alliance
Paul Angelo	Segal Company

President Romero called the meeting to order at 9:40 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

President Romero acknowledged the new Assistant Retirement Plan Managers Mark Blunk and Monnette Carranceja.

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 pertaining to items not on the agenda.

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

**1. Termination from Monthly Rolls as of June 2006:
Retirement Resolution for June 2006**

**Resolution terminating Bonita B. Scallon from the June 2006 Survivorship Roll as a result of her death
Resolution appointing Johnnie Johnson as trustee for Bradley Johnson, disabled son of Willie F. Johnson (deceased)**

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

Ayes: Romero, Coffin, Canzano, and Vazquez

Nays: None

- 2. Report of Payment Authorizations as of May 2006**
- 3. Notice of Deaths for May 2006**
- 4. Report on Status of Insurance as of May 31, 2006**
- 5. Summary Investment Returns as of May 31, 2006**
 - a) Market Value of Investment by Fund and Month as of May 31, 2006**
 - b) Market Value of the Retirement, Death & Disability Funds as of May 31, 2006**
 - c) Investment Returns as of May 31, 2006**
- 6. Memo from Fidelity**
- 7. Change in Resolution Number from 06-62 to 06-65 Due to Duplication of Number 06-62**

Mr. Vazquez referred to item 5 stating some of the investment managers were placed on watch status and inquired if this was noted in any of the reports. Ms. Bhatia responded this was not noted. Mr. Vazquez suggested this be noted on the future reports. Mr. Rue approached the podium and stated PCA is in the process of revising their performance reports, therefore the Board will see the managers on watch and how they have performed in the upcoming quarterly report and subsequent reports thereafter. Mr. Rue returned to the audience.

Mr. Vazquez inquired if BNY was on watch status. Ms. Bhatia responded that BNY was terminated and the funds are temporarily in the index fund while the RFP is conducted for the small cap growth fund. She stated the finalists for that RFP would be brought before the Board in July. Mr. Moore inquired, with respect to BNY, did the report reflect the status of the index fund that it was switched to.

Ms. June Kim (Investment Officer) approached the podium. President Romero recognized Ms. Kim.

Ms. Kim informed the Board that when the report was put together the return shown was continuing for BNY. Therefore the last month or two that WPERP's small cap assets have been in the index fund, that return is combined with the previous BNY return. She added the two could be reported separately. Mr. Vazquez inquired what the -14.6% return reflected. Ms. Kim responded that the bulk of it is from the previous active manager since the months WPERP has been in the index fund it has matched the index performance. Mr. Moore requested the standards be stated on the report to compare to,

for a manager that may be getting into trouble.

Ms. Bhatia noted that on item 7 a corrected resolution was distributed that changes the Board meeting date from May 17, 2006 to June 7, 2006.

Mr. Moore moved the above items 2 through 7 be received and filed. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Vazquez
Nays: None

8. Nominations and Appointments of Officers of the Board of Water and Power Employees' Retirement Plan

a) Nominations and Election of President and Vice-President

Mr. Canzano nominated Javier Romero for President. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Vazquez
Nays: None

Ms. Coffin nominated Mr. Canzano for Vice President. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Vazquez
Nays: None

b) Appointment of Chair and Members of Benefits Committee

President Romero appointed Ms. Coffin as Chair and member of the Benefits Committee.

c) Appointment of Chair and Members of Audit Committee

President Romero stated he wanted to keep the Chair of the Audit committee as it stands. He stated he would also like to keep Mr. Canzano as Chair of the Deferred Compensation Committee.

9. Update from PCA on RFI for Real Estate

Ms. Pam Alsterlind and Paul Mouchakka of PCA approached the Board table. President Romero recognized the PCA representatives.

Commissioner Hogan-Rowles arrived at the Board meeting at 9:50 a.m.

Ms. Alsterlind indicated PCA provided a memo detailing the status of where things stand in the process. She noted an RFI was issued in the spring and responses were received in May. She stated there were 17 interested parties and 5 responses, and one of the

Minimum Qualifications (MQ) that many of the firms were unable to meet was beating the benchmark of NCREIF Property Index (NPI). She added that PCA views this as an important MQ. She added there were others that did not necessarily have three years track record and PCA believes when you are looking at an existing product in this core area a firm should have a track record of more than one year. Ms. Alsterlind reported that out of the five, there were three firms stating they met all the MQs and two others (INVESCO and Guggenheim) that did not. However, PCA decided since they received five responses they might as well review all of the proposals. She referred to the rankings of the firms on page 9.2 of the agenda package and pointed out that Prudential, Morgan Stanley, and JP Morgan were well established firms with a good core product and track record. Consequently, it is PCA's recommendation to bring all three firms in as finalists and make a decision from there whether to go into one or two funds.

President Romero inquired if the insurance responses had been scrutinized. Ms. Alsterlind responded the firms are stating they meet the insurance requirements, but she is aware this has been an issue in the past. President Romero suggested leaving an open door for the next two candidates should the first three not qualify. Ms. Alsterlind commented there was a whole month for PCA to work with staff and go through the insurance requirements in detail with each firm.

Mr. Moore inquired if the caveats being raised were significant. Ms. Alsterlind responded in the negative.

Mr. Vazquez inquired what it meant to be involved in SEC sweep examinations. Mr. Mouchakka responded it is part of looking at whether or not a firm is following fair dealing and market timing type issues. He stated in their discussion with JP Morgan they claim this is typical for firms of their size and they have provided full cooperation to the SEC with regards to any of those examinations. He added this issue was not regarding real estate.

Mr. Moore moved approval of PCA's recommendation with the inclusion that firms four and five would be included should any of the others not comply with the insurance requirements. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles and Vazquez

Nays: None

Item 14 was taken out of order.

14. Discussion and possible action to approve a proposed amendment to the Water and Power Employees' Retirement Plan (Plan) to establish a Retiree Health Benefits Fund as part of the Plan

Attorney Cecil Marr (City Attorney's Office), Paul Angelo (Segal Company) and Mr. David Ulm (Executive Assistant to the General Manager) approached the Board table.

PUBLIC COMMENTS

Attorney Robert Dohrmann (IBEW Local 18) approached the podium. President Romero recognized Attorney Dohrmann.

Attorney Dohrmann introduced himself as an attorney representing the IBEW Local 18. He stated Local 18 has been discussing the establishment and maintenance of a retiree health care plan with Department managers since 1997. He reported that over the years Local 18 has seen developed and has had a hand in helping to develop the retirement healthcare plan that now exists. Attorney Dohrmann expressed that Local 18 was a little bit surprised to receive a letter dated May 30, 2006, from the General Manager stating DWP would be establishing a retiree health benefits fund as part of the Plan following a standard GASB 45 to be implemented by July 1. He further expressed that this sends up a red alert. He stated Local 18 has been following this issue for years and all of a sudden are told something is going to move ahead and they are not going to have anything to say about it. Attorney Dohrmann indicated he was prepared to give Mr. Deaton and Mr. Lindsey a formal demand from the union to meet and confer over this issue. He expressed that establishing a retiree health benefits fund as part of the Plan was a very complicated matter and is a step in a wonderful direction. He mentioned the idea to put the post retirement healthcare in the context as that of a pension plan in order to give time for investment opportunities and to deal with unfunded liabilities. Attorney Dohrmann reiterated these were steps in a good direction and the union intends to follow along with this decision. However, they will insist on the obligations of the Department to meet and confer before implementing the proposal. Attorney Dohrmann noted that Attorney Wilkinson, in his memorandum of April 25, states this could be a meet and confer item. He stated he spoke to Attorney Marr who told him he would be appearing before the Retirement Board today to state he has no opinion on that subject, but perhaps he has changed his mind. Attorney Dohrmann expressed his opinion that this issue is definitely a meet and confer and is covered by a famous case of the Pittsburgh Plate Glass Company and the 1960's decision of the United States Supreme Court. He emphasized that to the extent this will deal with employees who are currently on payroll and will benefit or suffer as the case may be for the changes made, Local 18 demands to be at the bargaining table over it. Attorney Dohrmann returned to the audience.

Mr. Vazquez requested a comment from Attorney Cecil Marr (Sr. Assistant City Attorney). Attorney Marr approached the podium. President Romero recognized Attorney Marr.

Attorney Marr introduced himself as an Employment Attorney at DWP and informed the Board that Attorney Wilkinson requested he attend the Board meeting to deal with the employment law issues. He indicated he did not have an opinion on whether or not this issue is a mandatory subject of bargaining and he knows of no case that is on point. He explained that what is being dealt with is not the benefits to an employee, which would be subject to mandatory bargaining, but is actually how the Department chooses to fund the benefits that may be negotiated. He further stated it was one step removed from what one would normally expect to find decisional case law on, and nothing was found to help guide us at this stage. However, in an excess of caution and to ensure that

various unions have a chance to state their case, Mr. Deaton sent a letter to all of the union potentially impacted by any negotiations relating to the discussion of benefits and informed them of the action he expected to take place. Attorney Marr stated Attorney Dohrmann inferred that this was some kind of preemptive strike, but in fact this letter is exactly what management does whenever it has a proposal that leads to bargaining -- it states a position and then it is up to the union to demand a meet and confer. He stated, at this time the parties can determine, with the help of their legal counsel, what action to take with response to that demand. He indicated that Attorney Dohrmann stated he expects Local 18 to respond to the May 30 letter and this will set in place a chain of events to obligate Mr. Deaton to make a decision on how to deal with this issue. Attorney Marr reiterated he had no opinion on whether the issue was a meet and confer and neither does the City Attorney. Attorney Dohrmann returned to the audience. Mr. Canzano commented that the Retirement Board was assured this issue was not a meet and confer at the last Board meeting.

Attorney Wilkinson requested Ms. Colon get Mr. Richard Gilbert (outside tax council) on line as a conference call to be part of the conversation and answer any questions. Ms. Colon attempted the conference call but was unsuccessful due to a bad connection.

Attorney Wilkinson referred to Resolution 06-75 on page 14.5 of the Board package, stating the amendments to the Plan on page 14.3 and 14.4 should follow, and then the certification for the resolution on page 14.7. He also noted there was a completely unrelated item on page 14.10 that should not be part of Item 14. President Romero referred to page 14.2, first paragraph, wherein the word "bank" is typed twice.

Mr. Ulm noted at the June 7 Retirement Board there was discussion and a lot of information and questions, but at the end of the meeting several Board members still had remaining questions and concerns. He listed the concerns as the Board members not having enough time to read the materials, the Board's responsibility for the liability, the Board's authority for the liability if it becomes part of the Retirement Plan, clarity in that the retirement fund plan assets would not be used for medical, and a question of whether or not this issue is a meet and confer. Mr. Ulm indicated a question came up in terms of third party potential and in the last two weeks management has looked into it and it is a viable option with the same benefits in terms of the safety and return on the assets. He stated this could be an alternative if the Board chooses not to make the health benefits fund part of the Retirement Plan. However, management's preference is to have it as part of the Retirement Plan.

Mr. Angelo stated he put together a discussion outline on the Retirement Board's responsibilities regarding this issue. He then began reviewing the outline with four basic functions of: 1) making the investment decisions, 2) direct administration, 3) setting the funding policy, and 4) setting benefit levels. He stated there were some fiduciary funds where they take on all four of these tasks. However, the DWP Retirement Board and all the other retirement boards he works on only run the first three functions. He pointed out that according to Resolution 06-75, of these four functions, the Retirement Board would take on the management of the investments and the administration, which could be delegated. However, the other two functions, funding policy and benefit levels, would be retained by DWP. Mr. Angelo mentioned Mr. Canzano's question of why the Board

should take on the fiduciary responsibility on the asset side if there is no way of directing how that unfunded liability is going to be addressed. He pointed out things the Board should consider such as, why set up a trust to fund the retiree medical benefits and what the advantages are of doing so. Mr. Angelo explained the advantages of having a separate trust fall under the two categories of: 1) the assets will be dedicated exclusively to paying Other Post Employment benefits (OPEB) assets and 2) it will protect the assets from creditors of the employer. He stated the two other things that would help is that one can issue special bonds to help accelerate the funding of the unfunded retiree medical benefits, and unlike the Retirement Plan, which is a vested benefit, that benefit is going to get paid. He explained that this means there is a nonnegotiable and unavoidable burden or liability on the employer. Also, for the retiree medical benefits it is his understanding that these benefits are not guaranteed at the same level. Mr. Vazquez commented it was also his understanding that the benefits are there at the direction of the Board of Water & Power Commissioners. Mr. Angelo explained what happens when you go from not having a dedicated trust to having a dedicated trust is that the monies that are in the dedicated trust that have a fence around them are not only protected from creditors but are also protected from the employer. He stated there was another family of advantages to be had by having a separate trust but that is only if you take the funds in that separate trust and invest it like a pension plan.

Mr. Angelo informed the Board if they were to decline to take this responsibility and the employer proceeded to set up a third party trust, that would clearly get the advantages of protection against creditors, accounts against GASB, locks in the assets only for paying benefits, and would allow bond financing. He pointed out what is a little bit of an open question is whether a third party trust sponsored by the employer would be allowed to invest in equity. He stated this puts the Board in a position of wanting to balance whether to take on the investment authority and if it is advantageous enough.

Mr. Moore inquired how this is being handled by LACERS, because they have had a longer history with this issue. He further inquired if LACERS set it up in a way where there is no involvement on the funding side. Mr. Angelo responded it was not set up the same way. He explained, as LACERS' actuary, Segal does an evaluation for the pension and for the retiree medical. He further explained that the LACERS Board adopts both of those rates and sends both bills to the City. However, he is not aware of the legal authority.

Mr. Blunk, a former LACERS employee in the retirement system section stated the health benefits themselves are laid out in chapter 11 of the Administrative Code for the City of Los Angeles. He stated the concept of what would happen if there was some decision to not increase the subsidy would potentially drive a dwindling of the trust over time. Mr. Moore commented if this was in the Administrative Code then it can be changed by City Council at some future date. He stated the question would then be what contractual right does the City have should they try and change that code. Attorney Wilkinson stated he had done a thorough research on this and there is a difference between having it in the Administrative Code that DWP does not have that and this is a large portion of the reason they do have the funding authority with the LACERS Board and that is the reason it is that way.

Mr. Canzano expressed his feeling that the Retirement Board was very interested in pursuing this issue. He stated the kind of questions he wants to hear answered does not deal with all the benefits of GASB, which is required anyway. He stated what he wanted to know is if something restricts the money going in, and the benefits are going out and the level of money is falling, who is responsible for keeping the level not at just \$400 million, but all the way up to the \$1.7 billion. He further inquired, as a Board, what are their responsibilities to the retirees. Mr. Angelo responded that his understanding is that the responsibility for paying the benefit, now and always, will be on the employer. Therefore, if the employer decides to stop advance funding and the tank goes dry, then they are back where they were originally and will still have to come up with enough to pay those benefits each month. He added, if the employer decides to stop advance funding then they are exercising their discretion to stop the benefits which will raise a host of issues and discussion. Mr. Canzano commented that the Retirement Board was never in the middle of that fight, if that fight were to ever occur. So that is the concern and those are the kinds of issues that are not being addressed. Consequently, he does not see how the Board, in good conscience and doing their fiduciary duty, could possibly make a decision with those kind of questions unanswered. Mr. Angelo suggested that maybe this needs to be spelled out more clearly, but in his non-lawyer experience it is not the Board's responsibility to make sure the benefits are being paid. Mr. Canzano inquired where it is stated that it is not the Retirement Board's responsibility. Mr. Angelo proposed that one of the things that needs to be made explicit is something that clearly limits and delimits what the Board's responsibilities are and are not. Mr. Moore referred to page 14.4 under Administration of Retiree Health Benefit Fund and noted there was a line stating, "the Board of Administration shall be the fiduciary responsible for the determination of the amounts and the disbursement of premiums and/or other cost of benefit coverage payments to insurance carriers, health maintenance organizations (HMO), etc.". He stated that lays on the Retirement Board this fiduciary obligation, which presumably then is to make the payments to the insurance companies because they are the ones that provide the benefits. Mr. Moore further stated, in actuality the Retirement Board is being asked to make the payments to the organizations that pays the benefits. Mr. Angelo explained that the word "determination" does not mean the Retirement Board has to come up with the money, but has to figure out how much money has to be paid. Mr. Moore indicated he did not know the meaning of the word "fiduciary" in the context of that paragraph. He stated as a fiduciary, if in the case there is substantial underfunding, the Board member is being asked to make a payment to an HMO, and the funding is drawing down rapidly, at what point does the Board have a fiduciary responsibility to say we cannot make that payment because there is not enough money in the bank. Mr. Angelo responded that he thinks the Board would see the funds running out from a distance, but until you get to that point the Board could make a distinction between determining the right amount that should come out of the fund and authorizing it.

Mr. Vazquez stated, on behalf of the Department's management, it does not make any sense for us to stay in the status quo. He indicated another payment of \$100 million was going to be made into that fund this month, but why make a payment when it will not reduce the liability or be counted against our liability for funding. He added we need to get it off our books. Mr. Vazquez explained the natural thought was that this would be

the best place for it to go. He reported, since the last meeting, an alternative had come up that will not create any problems that the Retirement Board thinks it might have with the health fund coming here. He stated, to the extent the Retirement Board will not accept the responsibility for the investment of those funds then it will be moved to a trustee, where hopefully we will be able to invest in equities also. He added that management has been in discussions with U.S. Bank to accomplish this. Mr. Vazquez suggested bringing the issue to a vote and if the Board does not want to accept the responsibility then they could pursue the alternative. Mr. Moore expressed he would really be disturbed if the Board would proceed with U.S. Bank even if the Retirement Board does not make a decision today. He stated this was a major issue for the employees and the retirees. He expressed this was definitely something he wanted to do, but he did not want to force the others to move ahead until their issues had been addressed.

Mr. Vazquez informed the Board that something had to be done as expediently as possible in order to continue to fund and reduce the cost. He explained if the fund is put into a separate trust with U.S. Bank the Department would receive all the benefits Mr. Angelo discussed and it would totally be within the Department's control. However, the funds would have to be dedicated to OPEB.

Commissioner Hogan-Rowles inquired if the Board would have any jurisdiction over the actual investments as far as how they would be invested. Mr. Vazquez responded there is a multi-employer trust that has already been set up by U.S. Bank if we choose to join with one or six investment options in terms of the realm in the make up of investments. He suggested either accepting this or just accepting their trustee services and engage outside managers so the Board can direct how those funds are allocated and invested.

Mr. Deaton arrived to the meeting at 10:40 a.m.

President Romero expressed that one of his concerns is the fiduciary issue. He stated he thinks the purpose of the process is to get comfortable and meet and confer. He further stated if the Board is really serious about establishing a retiree health benefits fund as part of the Plan then they should sit at the table with the labor union and resolve it before contemplating a third party.

Mr. Deaton indicated a letter was sent to all of the labor organizations to ask them if they wanted to establish a retiree health benefits fund as part of the Plan, but he had not received any responses. He stated this is a situation in which, from a Department financial point view, we need to move forward. However, as an employee, he would prefer it be in the retirement system. Mr. Deaton expressed he feels financially compelled to do the right thing for the Department and its employees, which is to put it into a trust and get a better rate of return and place the Department in a better position on how we are viewed under the accounting system. He stated he feels obligated to do what he has to do and he would not do anything to jeopardize the postretirement health care. Mr. Deaton explained that establishing a Retiree Health Benefits Fund as part of the Plan would be in the best interest of the employees and the Department as a whole financially. He expressed that from a legal standpoint there is no difference in putting the fund into a third party trust and putting it in the retirement system because they are

legally the same. He added there was no advantage from what one would have the opportunity to do under a retirement system vis-à-vis a third party trust under state law.

Mr. Ulm pointed out that the concern is that if we have control over the funding maybe we are just going to let that liability go or we are going to stop the money from coming in. However, under the GASB-45 we are going to be doing actuarial reports for the retiree medical benefits just like we do for the Retirement Plan. He stated the report tells how much one should be putting into that fund and what the expenses are. Mr. Ulm explained if we were not to do that and let the liability be there and not fund it, there would be major modifications on our bond rating and other things. He added there was no incentive at all for management not to do what is right for the employees and retirees for DWP.

President Romero requested Attorney Dohrman approach the podium to address the letter sent to the labor organizations. Attorney Dohrman approached the podium.

Attorney Dohrman requested a letter be passed out to the Retirement Board that was written to Mr. Deaton making clear that Local 18 is demanding negotiations over this issue. He stated Local 18 has been under the impression since 1997 that there is a post retirement healthcare benefit trust fund with First Trust of California. He stated, if that is not the case and these funds are not held already in an irrevocable trust then Local 18 has been misled. Attorney Dohrman indicated there are so many questions that have been raised and do not have answers to that Local 18 would like to participate in their resolution. Attorney Dohrman returned to the audience.

Commissioner Hogan-Rowles expressed she had the least amount to gain from anything going on. She stated she had never seen such a battle around the opportunity to accept almost a half a billion dollars for the benefit of DWP employees and retirees. She stated it was upsetting that this issue was being turned into a union issue versus a management issue, when the real question is can we make a business decision. Commissioner Hogan-Rowles expressed this was a business decision around a time sensitive issue that asks the question, "should we move this money so that we can make better choices about it in terms of the investment side or should we not.". She further expressed this should not be turned into a union, meet and confer, or management issue and the Board needed to be objective about it and move forward and look at whether or not they want to take the responsibility of managing these funds. She stated she felt the funds rest best as part of the Plan.

Mr. Canzano stated he did not feel this was a union versus management issue at all, but is an issue of due diligence and moving on a very large decision. He stated he felt it is a good thing, GASB is a good thing, and those funds under the Retirement Board would probably be the very best thing. However, he did not understand why it is so time sensitive that it will not allow the Retirement Board to do its fiduciary responsibilities to clearly outline what they are moving forward to. Mr. Canzano expressed he took it personal that it would be made to look that he, as a Board member, would be against the fund coming here. He pointed out that the real problem is unanswered questions to what the Board would be taking on and what their responsibility and liability is. He stated he did not understand how this could be a great deal before July 1st, but a

horrible and impossible deal and veiled threats of taking the funds to an outside third party. Mr. Deaton responded that he objected to Mr. Canzano's comment of "veiled threats". He explained that management has been looking at this problem and the problem is that it is in a trust and we thought it was "irrevocable", except the people looking at our financial numbers do not view it as irrevocable. He stated this was not something unique to DWP and every governmental agency in California is dealing with this issue. He added it was a major difficulty of trying to figure out exactly how to handle this. Mr. Deaton stated that management has been looking at this for the last several months to try to figure out the right way to do it. He explained the reason for the time situation is because July 1, 2006 is a new fiscal year. He expressed he was trying to get the best thing he could get for both the Department and the employees. Commissioner Hogan-Rowles reiterated that this was a statewide issue and DWP has the opportunity to do something monumental and other Retirement Boards are probably going to look at us and see what we did as trailblazers.

She added she believes the fiduciary responsibility is covered in that we are not the ones responsible for putting the money in, but for managing the money. Commissioner Hogan-Rowles added she believes, business-wise, it would be an excellent move and opportunity for the Board to demonstrate statewide what the larger pensions should be doing and we are setting the stage and the tone for how these things function going forward.

President Romero commented he believes the Board can accomplish everything Commissioner Hogan-Rowles indicated but it would have to be done in a more diligent effort and added, with the information he has now, he would not be comfortable with going forward at this time. He asked Mr. Deaton if he wanted to go forward with the vote. Mr. Deaton added in deference to the questions raised by the other Board Members and in an effort to resolve this matter, we will wait until the next Board Meeting. He stated legally it does not make a difference, but to him it "feels better" to have these funds in the Retirement system.

Mr. Ulm asked if the Board wanted clarification of the authority and responsibility. Mr. Canzano replied in the affirmative adding we need to resolve whether this issue is a meet-and-confer. He stated the Board was informed at the last meeting that it was not. Commissioner Hogan-Rowles asked how meet-and-confer works, questioning the length of time it would take to start that process. President Romero replied that there is no standard as to the time the meet-and-confer process would take adding that you need to have the information, sit down and then talk about it. Commissioner Hogan-Rowles inquired if it requires speaking with more attorneys. Attorney Dohrmann approached the podium and commented in the 43 years he has represented Local 18 he has never sat in on their negotiations. Commissioner Hogan-Rowles noted she supports deferring this item to the next meeting, but does not want to be going over the same issues. Mr. Moore responded he agreed, stating there seemed to be little motion on this item over the last two weeks. He urged Board Members to articulate their concerns by meeting with management as soon as possible to come to a resolution before the next Board Meeting. Mr. Romero replied that for the last two months they have been asking if this is a meet-and-confer item and they have still not received a clear answer. Mr. Marr responded, in the City of Los Angeles, under the employees'

ordinance, if management agrees to meet-and-confer, it triggers a process which could take years. He noted that the responsibility is on the head of the Department, not the Board. Mr. Marr stated this Board is acting to receive a responsibility noting the decision on whether to meet-and-confer lies with Mr. Deaton and the Board of Commissioners. He stated he does not anticipate that the City Attorney's Office is going to give advice to the Retirement Board on whether this is a meet-and-confer issue in order to resolve it. Mr. Marr added, not only is the law very unclear on this subject, but it is not an issue that necessarily implicates the Board's fiduciary responsibility. He reiterated that he feels it is the DWP Board of Commissioners and Mr. Deaton who are going to have to decide how to respond to Local 18's demand.

Mr. Vazquez commented there are still questions as to the timing adding the last thing they want to do is to have to fund at a higher level next year based on an actuarial report that is due out July 1st. He stated he was sorry there was so much discomfort with this issue, it just seemed like this was the ideal vehicle to take care of a problem they had accounting-wise, adding it would improve the investment opportunities, etc.

Mr. Wilkinson noted, for scheduling purposes, he will not be at the July 5th meeting, but Mary Jo Curwen would be here.

Commissioner Hogan-Rowles asked, in order to meet the June 30th end-of-year deadline, if the Board Members feel they could come to some resolution, would they be willing to have a special meeting. President Romero replied, the meet-and-confer item needs to be resolved and he would like to know what other pension plans are doing. Mr. Moore commented he thought this had to be accomplished by the end of June in order to impact the books that close June 30th. He stated at the last meeting Mr. Ulm commented that this was not the case, the concern was for the next fiscal year, but he also voiced concerns about the actuarial study and assumptions that would be made for the new fiscal year. Mr. Moore inquired when does what have to be done so the books reflect what they want them to reflect. Mr. Vazquez interjected stating that the Department had intended to put another \$100 million into that fund this month before the end of the fiscal year so that it could be counted against the Department's liability in the next actuarial study. To the extent that this is not resolved by the end of June, he expressed that he does not want to put money in there if there is no guarantee that this money will be able to be used to offset the liability. Mr. Vazquez stated this was one issue from a timing standpoint – when do we put more money into this fund and get recognition for doing so. Mr. Ulm reiterated that the Department wanted this done before the end of the fiscal year because it is a clean cut-off and you can say this is when it was approved, prior to July 1, 2006 so there is no question that this was in place the whole time. He added, it would also give us an opportunity to look at this fiscal year before we close it, noting if we got new investment assumptions for the funds that are now in there, the potential is that they can do a rerun of their actuarial study for the current fiscal year prior to its close. Mr. Ulm stated you can still do it in July, as early as possible in the fiscal year, and still be in place for the full, coming fiscal year. Mr. Moore inquired did this offer the Department the prospect of doing something for the prior fiscal year as well or is the Department looking exclusively to the new coming fiscal year. Mr. Ulm replied, the later it goes, the less opportunity there is of considering if for the current fiscal year. Mr. Vazquez stated the timing issue is should we deposit this \$100

million before the end of this month or not. He added, from a financial standpoint, he would not recommend making that deposit without the assurance that they will be able to take care of this problem and get it off their books.

Commissioner Hogan-Rowles asked for clarification on where they stood on this issue, asking is there a comfort level with moving forward if there is no meet-and-confer. President Romero stated if the issues get resolved before the next meeting, he would be willing to call a special meeting. Mr. Moore clarified that what President Romero is expressing is until the meet-and-confer issue is resolved, in addition to the questions and concerns that were expressed, that he was not prepared to take any action. He expressed this troubled him since, based on the City Attorney's comments and the general manager, they are never going to concede that it is a meet-and-confer, which means this issue will not be resolved in a timely manner. Mr. Deaton replied the only thing he said up until he received this letter given to him that morning by Attorney Dohrmann is that he had not received a request for meet-and-confer. Whether he considers this a meet-and-confer or wants to proceed with that, he had not yet resolved adding the City Attorney does not speak for him. Mr. Ulm noted there is a third alternative – if the issues raised by the letter that Mr. Deaton received at this meeting can be resolved between the parties between now and two weeks from now then that issued will be off the table for everyone and they can proceed with this.

Mr. Vazquez noted that he does not feel there is a lot of clarity they can give the Board when it comes to what the Retirement Board's fiduciary responsibility is going to be and what is going to remain with management. Mr. Ulm stated, putting aside the meet-and-confer issue, they would like to make sure the other issues are addressed noting that he wants to make clear that the Retirement Board is not taking on the responsibility for funding. He added, it is stated in the actual amendment to the text, but is buried in the paragraph that states "Purpose of Fund and Extent of Funding" (page 14.3 of the Board package). Mr. Angelo inquired if putting a more explicit statement in the resolution that speaks to the fact that Retirement funds cannot be used for Health funds would address the Board's concerns. Mr. Canzano responded when he reads this specific paragraph his question is, is the Commission oversight the same pre and post adoption if the Plan was to take on the medical benefits adding it talks about the power of the Board of Water and Power Commissioners, on a time-to-time basis, to change the funding, etc. He inquired if this is their current authority and, if we take this on, would we be taking on the exact same authority. Mr. Vazquez replied in the affirmative. He noted, what the Department is asking the Retirement Plan to take on is the custody of that fund and the investment of that fund. Mike Wilkinson added anything here that is not set up as a change is not a change, noting this document has been "hammered out" to satisfy both the legal and the auditing requirements. Mr. Deaton clarified the Retirement Board does not have any authority over changing the benefits, adding the agreement between the employee and the employer determines what the benefits are. Mr. Wilkinson stated the fiduciary responsibility is to pay out what is in the trust fund but not to come up with the money to fund it. Commissioner Hogan-Rowles asked Mr. Wilkinson if the Board's responsibility is making sure the money is going where it is suppose to go. Mr. Wilkinson replied in the affirmative. President Romero referenced page 14.3, 3(b) asking if it would be inappropriate to use the same language in the Plan, saying at no time any contributions, assets, earnings of the Retiree Plan be used to pay health

care.ds Mr. Wilkinson responded, his concern is this protection is already stated in the Plan and if there is a lot of rewriting done, both his opinion and outside tax counsel is that, if we rewrite this, instead of strengthening that protection we would end up weakening it. He added what they attempted to do is put this into the resolution and not unnecessarily make some mistakes in the Plan language that would have the inadvertent effect of weakening the protection. Mr. Deaton added the Retirement Board already have the fiduciary responsibility to ensure that Retirement funds are used for nothing but retirement. Mr. Wilkinson noted it is already clear in the Plan that the Board has this fiduciary responsibility.

Attorney Marr, Mr. Ulm, Mr. Angelo, and Mr. Deaton left the Board meeting.

10. Assignment of Existing Contract with Merrill Lynch (Passive Large Cap Domestic Equity Mandate) to Blackrock Inc.

Ms. Bhatia stated that at a previous Board meeting it was reported that Merrill Lynch was entering into a merger with Blackrock Inc., scheduled to occur around October 1, 2006. She explained that Resolution 06-69 provides for the assignment of the existing contract with Merrill Lynch to Blackrock and other changes would have to be made on the contracts to allow for a change in the name.

Mr. Canzano moved for approval of Resolution 06-69. Seconded by Commissioner Hogan-Rowles and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles and Vazquez
Nays: None

11. Extension of three Large Cap Domestic Equity Investment Managers' Contracts

- a) **Merrill Lynch Investment Managers (MLIM)**
- b) **Intech**
- c) **Fred Alger Management**

President Romero introduced item 11 as Resolution 06-70, 06-71, and 06-72 to extend the three large cap domestic equity investment managers' contracts.

Commissioner Hogan-Rowles moved for approval of resolutions 06-70, 06-71, and 06-72. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles and Vazquez
Nays: None

12. Resolution to place Earnest Partners (Active Small Cap Investment Manager) on watch status

Mr. Moore expressed he did not have a problem with Resolution 06-73 but he was a little unclear as to its applicability under our standards versus a couple of the other

managers that are in a similar situation and have not been put on watch yet. He then inquired if Boston Company in the international developed had been placed on watch. Ms. Bhatia responded in the negative. Mr. Moore inquired if Boston was within the bounds of the active international equity versus these standards. Ms. Bhatia responded that Boston Company still met the criteria and that there is a 12-month rolling period that is studied when looking at short term investment performance criteria and Boston was not yet meeting the criteria. Mr. Moore pointed out that Boston Company was 17.39 under for the entire fiscal year ending 2005 and is -3.02 for the current year. Ms. Bhatia informed the Board that staff was keeping a close watch on Boston Company, but they have not quite failed to meet the criteria. Mr. Moore stated the reason for his inquiry is because Boston Company has been in that situation for quite some time, whereas Earnest Partners has not. Ms. Bhatia responded that Earnest Partners has normally done very well. However, this is a short-term investment performance criteria which the Board adopted and staff is trying to make sure there is compliance.

Ms. June Kim (Investment Officer) approached the podium. President Romero recognized Ms. Kim.

Ms. Kim informed the Board that the Boston Company are an international strategy so the criteria is 4.5%, but also when they were outside of bounds there was no 12 months of returns yet.

Katie Driver of Earnest Partners approached the podium. President Romero recognized Ms. Driver.

Ms. Driver reported that in looking at Earnest Partner's performance long term over the 13 years they have been managing that particular product their annualized return is about 800 basis points ahead of the benchmark. She stated Earnest Partner's annualized return for DWP's Plan portfolio, which has an inception date of November 2004, is approximately 300 basis points ahead of the benchmark. Ms. Driver suggested the Board look to that long term performance, because as managers, they look at performance over a three to five year period and understand there are going to be short term periods of underperformance. She explained in terms of the trailing 12 months, there were a couple of issues at play here. At the first quarter there was a somewhat unusual situation in the market in which they had materials and industrials being the top two performing sectors, which is very unusual in the Russell 2000 value. She reported that DWP's portfolio is underweight in both of those sectors, which hurt the portfolio. Ms. Driver stated that they also saw companies with negative earnings outperforming companies with positive earnings and as a fundamental bottoms up investment manager, Earnest Partners tends to invest DWP's funds in companies that have positive earnings. Ms. Driver returned to the audience.

Mr. Moore moved approval of Resolution 06-73. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles and Vazquez

Nays: None

13. Resolution ratifying private equity investment with Lexington Partners

Commissioner Hogan-Rowles moved approval of Resolution 06-74. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, Hogan-Rowles and Vazquez
Nays: None

15. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (June 1, 2006, Edition)

b) Update on IT system

Ms. Bhatia stated that a selection letter regarding the IT System was sent to Levi, Ray, & Shoup, Inc. and staff drafted a proposed contract which has been sent to various parties (ITS, Risk Manager, and City Attorney's Office) for review.

c) General Items

Ms. Bhatia announced the appointment of the two new Assistant Plan Managers in the Retirement Office, Mr. Mark Blunk and Ms. Ramonette Carranceja.

16. Future agenda items

Mr. Vazquez reported that the health plan issue may be brought back. He then inquired where things stand in terms of additional information being brought before the Board by PCA regarding alternative investments and hedge funds.

Ms. Sara Bernstein approached the podium. President Romero recognized Ms. Bernstein.

Ms. Bernstein informed the Board that PCA would like to give the Board an educational this summer on primary fund of funds instead of secondary. She stated in the fall PCA would like to bring forward other funds in that fund of funds, but exact dates had not been scheduled. She further stated, with regards to the hedge fund of funds, the process would begin this summer and go forward with the expectation of bringing in managers in a standard finals presentation to the Board for review and finalization in the fall. She stated at the next meeting she could submit a more detailed schedule for the Board's information and approval. Ms. Bernstein returned to the audience.

Ms. Bhatia informed the Board that the two firms for the proxy provider services would be brought back. She stated at the July 19 Board meeting, staff is planning to bring the finalists on responses to the Request for Proposals (RFP) for the small cap growth manager replacing BNY.

Commissioner Hogan-Rowles inquired about the procedures of submitting information to Retirement Office staff for Board distribution that she had her staff pull regarding

investments in tobacco and social responsibility, what the returns are, and what is being seen worldwide around Sudan. Attorney Wilkinson requested this item be held until the July 19 Board meeting because he had already drafted a memo regarding this and he would not be attending the July 5 meeting.

The Board meeting was adjourned at 11:45 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary