

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

MINUTES – September 6, 2006

Present:

| | |
|----------------|-------------------------|
| Javier Romero | President |
| Eugene Canzano | Board Member |
| Cindy Coffin | Board Member |
| Ron Vazquez | Chief Financial Officer |
| Michael Moore | Retiree Member |

Absent:

| | |
|-----------------------|-----------------|
| Ronald Deaton | Commissioner |
| Forescee Hogan-Rowles | General Manager |
| | Commissioner |

Others Present:

| | |
|--------------------|-----------------------------------|
| Sangeeta Bhatia | Retirement Plan Manager |
| Vikki Burks | Recording Secretary |
| Monette Carranceja | Assistant Retirement Plan Manager |
| Mark Blunk | Assistant Retirement Plan Manager |
| June Kim | Investment Officer |
| Avery Neaman | Risk Manager |
| Tom Harrington | Consultant |
| Mike Wilkinson | Deputy City Attorney |
| Neil Rue | Pension Consulting Alliance (PCA) |
| Sara Bernstein | PCA |
| Tad Ferguson | PCA |
| David Sancewich | PCA |
| Karen Frederick | LRS |

President Romero called the meeting to order at 9:36 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

President Romero offered condolences to Mr. Canzano and his family due to the recent loss of a loved one. Mr. Canzano thanked the Board, the Department and Local 18 for the outpouring of cards and prayers.

PUBLIC COMMENTS

President Romero asked if there were any public comments.

Mr. Dave Malacheck of The Bank of New York (BNY) approached the podium.

President Romero recognized Mr. Malacheck.

Mr. Malacheck thanked the Board, Staff and PCA for being able to use them as a reference. He stated the Los Angeles City Employees Retirement Plan office has hired BNY as transition managers.

Mr. Malacheck returned to the audience.

President Romero introduced item 1 for consent approval as follows:

- 1. Approval of Board Minutes;**
 - a) June 7, 2006 (Regular Board Meeting) 1a.1 – 1a.31**
 - b) June 21, 2006 (Regular Board Meeting) 1b.1 – 1b.17**

Mr. Moore citing page 1a.1 of the Board package where it reads “He noted they want their entitlement to a pension locked in,” requested the sentence be revised to read, “He noted their entitlement to a pension is locked in.” Mr. Moore requested the word “his” be stricken from the last sentence of the first paragraph on page 1a.19.

Mr. Canzano questioned the sentence on page 1a.10 of the Board package that indicates Attorney Wilkinson and Attorney Marr concur that the unions should be brought into the process. Mr. Canzano stated he recalled Attorney Wilkinson deferring to, not concurring with, Attorney Marr. Attorney Wilkinson commented he also recalled deferring to Attorney Marr. President Romero stated the record should be changed to indicate Attorney Wilkinson did not take a position on the matter, rather deferred to the opinion of the labor lawyer, Attorney Marr. Mr. Canzano requested the first line of page 1a.13 be amended to read “Mr. Angelo” rather than “Mr. Segal”. Mr. Canzano also noted page 1a.19 states “\$500 billion”. It was agreed the amount being referred to was actually “\$500 million.”

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, Canzano, Coffin, Moore, Vazquez

Nays: None

- 2. *The following items were seconded but not moved at the July 19, 2006, Regular Board Meeting***

Report of Payment Authorizations as of June 2006

Notice of Deaths for June 2006

Report on Status of Insurance as of July 10, 2006

Summary Investment Returns as of June 30, 2006

Summary Investment Returns as of June 30, 2006

- a) **Market Value of Investment by Fund and Month as of June 30, 2006**
- b) **Market Value of the Retirement, Death & Disability Funds as of June 30, 2006**
- c) **Summary of Investment Returns as of June 30, 2006**

President Romero explained action was not taken on above item 2 at the July 19th Regular Board Meeting.

Mr. Canzano moved the approval of the above item 2. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Vazquez

Nays: None

3. Notification from Macias Gini & Co. of name change to Macias Gini & O'Connell LLP

4. Change in Relationship Manager- Mellon Bank

5. Intech memo regarding Hurricane Ernesto and possible interruption of operations

Mr. Moore moved the above items 3 through 5 be received and filed. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Vazquez

Nays: None

6. Presentation for Quarter ending June 30, 2006, for Small Cap Value mandate by Earnest Partners 6.1

Mr. Paul Viera, CEO and Partner, and Mr. Patmon Malcom, Product Management for Earnest Partners, approached the Board table. President Romero recognized the representatives from Earnest Partners.

Mr. Malcom provided a portfolio review of the Earnest Partners Small Cap value.

Mr. Vazquez inquired as to when Earnest Partners purchased Serologicals Corporation, Commerce Group Inc. and Oceaneering International Inc. Mr. Malcom responded Serologicals was bought 2 years ago, Commerce Group 3 years ago and Oceaneering International Inc. toward the end of 2005.

Ms. Coffin noted post-hurricane Katrina cleanup has been completed and inquired as to the plan for Oceaneering International, since a portion of its growth was due to post-hurricane cleanup. Mr. Malcom responded the issue has been taken into consideration. He stated the hurricane cleanup partially assisted in increasing Oceaneering's earnings; however, with the level of deep-water exploration going on worldwide the service provided by Oceaneering is expected to remain high. Mr. Viera added hurricanes have helped the growth of Oceaneering, however, they are not central to the company's success. He indicated the scarcity of energy and high oil prices are the major factors adding to Oceaneering's success.

Mr. Vazquez, referring to page 8 of the Earnest Partners presentation material, inquired which sector represents homebuilders. Mr. Malcom responded homebuilders are included in the consumer discretionary sector.

Mr. Moore requested Earnest Partners underperformance be addressed. Mr. Viera stated over the past year low quality companies have performed well. He stated the lowest quality companies have performed at a 25% rate of return while the highest quality companies have performed at 1.7%. Mr. Viera stated Earnest Partners invest in the highest quality companies. He stated Earnest Partners does not believe it is realistic for the highest quality companies to under-perform the lowest quality companies by a factor of 5 to 7 times. He stated it was unpredictable. Mr. Viera commented small cap steel companies have performed very well recently. He stated the price for these companies was unreasonable and Earnest Partners intentionally did not own any of the steel companies. Mr. Viera indicated Earnest Partners believes this to be a short-term benefit. He stated the Industrials sector performed very well because many of the companies benefited from the Hurricane Katrina clean-up. Mr. Viera indicated many of the companies will not be able to sustain the performance since the Hurricane Katrina clean-up efforts have ceased. Mr. Viera explained the Plan's portfolio was overweighted in energy. He stated in the past two years these holdings were a benefit to the portfolio; however, due to the decline of natural gas prices, the share prices have dropped as well. Mr. Viera stated in regards to homebuilders, it is important to differentiate between what is currently happening in the market and what are the projections for the next three to five years. He explained Earnest Partners makes the observation that in the next three to five years, the homebuilders' market will continue to grow at a robust pace. Mr. Viera stated the healthcare stocks have performed very well relative to other healthcare stocks. He stated healthcare stocks in general have not performed well in the current market. Mr. Viera indicated Earnest Partners attempts to divorce themselves from what is happening in the moment and prefers to buy businesses that will perform well for a reasonable period of time.

The representatives from Earnest Partners left the meeting.

07-13 7. Resolution to ratify the selection of Core Real Estate 7.1 – 7.2
Open End Fund manager J.P. Morgan

President Romero introduced item 7.

Mr. Moore moved approval of Resolution 07-13. Seconded by Mr. Canzano and carried

unanimously after the following vote:

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

07-14 8. Resolution to ratify the selection of Core` Real Estate 8.1 – 8.2
Open End Fund manager Prudential Financial

President Romero introduced item 8 and asked if there was any discussion. There was no discussion.

Mr. Vazquez moved approval of Resolution 07-14. Seconded by Mr. Moore and carried unanimously after the following vote:

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

07-15 9. Resolution to ratify selection of Active Small Cap 9.1 – 9.2
Growth Manager – Paradigm & NorthPointe

President Romero introduced item 9 and asked if there was any discussion. There was no discussion.

Mr. Moore moved approval of Resolution 07-15. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

07-16 10. Resolution authorizing the rebalancing of accounts as 10.1 – 10.6
recommended by PCA

President Romero introduced item 10 and asked if there was any discussion.

Mr. Moore stated in regards to page 10.5 of the Board package, how would the reductions from the Developed Markets and Emerging Markets be determined.

Ms. June Kim approached the podium. President Romero recognized Ms. Kim.

Ms. Kim explained the bulk of the reduction would come from the Developed markets because it is more significantly overweighted as compared to the Emerging markets.

Ms. Kim returned to the audience.

Mr. Moore moved approval of Resolution 07-16. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Vazquez

Nays: None

**07-17 11. Resolution to approve hiring of two outside law firms 11.1 – 11.5
to act as fiduciary counsel to the board in conjunction
with the City Attorney**

President Romero introduced item 11. He inquired as to the length of the City of Los Angeles' contract with the fiduciary counsel. Attorney Wilkinson responded he is proposing a new contract to start September 1, 2006 with a term of three years. He indicated this contract would be a new contract and not tied to the City's contract.

President Romero stated he was unclear and inquired if the Board would have a separate contract for a three-year term. Attorney Wilkinson responded in the affirmative, explaining the contract terms would be the same as were negotiated for LACERS and Fire and Police Pensions.

President Romero inquired if there were any issues with fair competition. Attorney Wilkinson responded he does not believe a Request for Proposal (RFP) is required as the RFP process was conducted with LACERS and Fire and Police Pensions. He indicated the Plan's needs are very similar to those of the other City of Los Angeles pension plans and because of the similarities he does not believe another RFP is necessary. Attorney Wilkinson stated the RFP process could be initiated, however, it would cause a delay in hiring counsel.

Mr. Vazquez stated he would like Resolution 07-17 amended to specify the contract is for a three year-term. Attorney Wilkinson agreed to Mr. Vazquez's request. President Romero inquired as to what the resolution currently states. Ms. Bhatia explained the resolution currently does not address the term limits.

President Romero stated he believes the Board should conduct its own RFP and due diligence. He commented "piggybacking" on the due diligence and RFP of another plan is not the direction in which he would like to proceed. President Romero stated the Board has a need for real estate and fiduciary counsel. He stated he was unaware the previous fiduciary counsel contract was near expiration. President Romero requested in the future, Staff provide the Board with a six-month advance notice of expiring contracts to allow time for the Board to conduct its own RFP and due diligence. Ms. Bhatia stated she reviewed the Klausner file and indicated the contract had been renewed twice and had expired last year. President Romero stated he is aware the Retirement Plan office had been understaffed, but would like to keep track of the contract expirations so the Board can hire its own attorneys and managers.

Mr. Vazquez suggested the contracts are set-up as one-year contracts with two optional one-year renewals.

Mr. Moore moved approval of Resolution 07-17 and Resolution 07-18 with the noted changes. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

- 07-18 12. Resolution to approve hiring of two outside law firms to act as real estate and alternative investment counsel to the Board in conjunction with the City Attorney 12.1 – 12.3**

Item 12 was discussed and voted on with Item 11.

- 07-19 13. Resolution to approve the transfer of \$130 million from the reserve for investment gains and losses to the general reserve 13.1 – 13.2**

President Romero introduced item 13 and asked if there was any discussion. There was no discussion.

Mr. Moore moved approval of Resolution 07-19. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

- 14. Discussion of RFP minimum qualifications and recommendations 14.1 – 14.3**

Sarah Bernstein approached the Board table. President Romero recognized Ms. Bernstein.

President Romero introduced item 13 and inquired if there was any discussion. Mr. Vazquez requested the representatives from PCA provide the Board with an overview. Ms. Bernstein stated at a previous Board meeting PCA was directed to review the RFP minimum qualifications section and clarify the qualifications that were “required” from the qualifications that were desired but not required. She explained PCA is recommending the Board revise the minimum qualifications section of the RFP and Request for Information (RFI) to include the subsets “required minimum qualifications” and “highly recommended minimum qualifications”. As an example, Ms. Bernstein referenced the recent WPERP Small Cap Growth manager search. She indicated the minimum qualifications used in the Small Cap Growth manager search were reorganized to be listed as either “required minimum qualifications” or “highly recommended minimum qualifications” (page 14.2-14.3 of the Board package). Ms. Bernstein commented of the original qualifications the following three organizational criteria be would be deemed “required minimum qualifications:” 1) The firm must have been in existence for at least three full years; 2) It must be SEC Registered, a Bank or licensed Insurance Company Affiliate; and 3) It must meet or exceed the insurance and other Board and City requirements outlined in the Appendices of the RFP. She noted if the “required minimum qualifications” were not met, the respondent’s proposal would be rejected. She indicated the remaining criteria could be listed as “highly recommended

minimum qualifications” and a respondent’s proposal may be rejected if not met.

Mr. Vazquez inquired if the same criteria will apply to all asset classes or if some are excluded. Ms. Bernstein responded the proposed “Required minimum qualifications” would apply to all asset classes. Mr. Vazquez inquired if the Real Estate, Hedge Fund and Alternative investment managers are required to be SEC registered. Ms. Bernstein responded in the affirmative. She explained the “highly recommended minimum qualifications” could differ between asset classes.

Ms. Bhatia stated listed under the “Highly recommended minimum qualifications” is the criteria that “The firm must agree to consider the Russell 2000 Growth index to be a reasonable benchmark for the mandate over a typical market cycle”. She inquired what would happen if the firm refused to consider the Russell 2000 benchmark. Ms. Bernstein responded that criteria is an asset class specific recommendation and would not be used in judging all proposals. She also indicated because the criteria is “highly recommended” a respondent’s proposal may or may not be rejected.

Mr. Vazquez inquired if an entire team that serviced the Plan, left their firm to start another firm, how does that relate to the three-year requirement. Ms. Bernstein stated some analysis would be necessary; however, she believed this would be primarily a name change.

Ms. Bhatia commented it is good to have flexibility; and cautioned that the proposed changes introduce more subjectivity into the RFP process.

President Romero stated the item is listed as discussion and inquired if any action is to be taken.

Mr. Rue approached the podium. President Romero recognized Mr. Rue.

Mr. Rue stated this represents a change in the RFP process and may require action. Ms. Bernstein explained the item was not listed as requiring action; however, the Board is expected to vote for the item with a resolution.

Mr. Rue and Ms. Bernstein returned to the audience.

President Romero indicated he would defer to counsel. Mr. Moore inquired if the Board could still take action even though there is currently no resolution. Ms. Bhatia expressed she believed the item was being brought before the Board for discussion only. Attorney Wilkinson stated due to the wording of the agenda item, it must be brought back if action is to be taken. Ms. Bhatia clarified, if the Board agrees, a motion can be passed and a resolution can be brought back at a later time.

Mr. Moore moved for Staff to present the Board with a motion to adopt the recommendation of PCA to revise the minimum qualifications section of future RFPs and RFIs. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Vazquez

Nays: None

**15. Discussion and possible action on issues pertaining to 15.1 – 15.2
the contract with LRS (Pension Gold)**

Mr. Avery Neaman, Risk Manager, approached the Board table. President Romero recognized Mr. Neaman.

President Romero requested Ms. Bhatia provide the Board with an update on the issues pertaining to the LRS contract negotiations. Ms. Bhatia provided the Board with an update and indicated the two main issues pertained to the insurance requirements and the contract language. Ms. Bhatia stated LRS has introduced contract language holding the Plan liable for increased costs if there are scheduling delays. She indicated Staff is concerned because LRS's initial time estimate of ten months was considered to be very ambitious. Ms. Bhatia explained LRS has modified the deliverable schedule from ten months to eighteen months in order to accommodate Staff's concern regarding time overruns. She stated Staff is bringing this before the Board because Staff was only authorized to proceed with a fixed price contract.

Mr. Moore commented he is very concerned because he recalled during discussions with both LRS and JEA the contract prices were noted as being fixed, even if there were time overruns. Mr. Moore expressed he believes LRS is now changing the agreement from what was originally offered during discussions.

Ms. Carranceja explained when LRS implemented LACERS' system the initial time estimate was 100 weeks, however, the project overrun was one-year. She indicated Staff is unaware of how clean the data is, the interfacing phase will be limited by IT's availability, and conversion may become complicated. Ms. Carranceja stated the ten-months implementation is not realistic from Staff's perspective. She explained once the contract is signed WPERP will be at LRS's mercy and the cost of any time overruns had not been specified. Ms. Bhatia noted LRS has stated there would be discussions before any time overrun charges were assessed; however, she stated at that point implementation would have already begun.

Ms. Bhatia stated another area of concern is insurance relating to incidental, consequential or indirect damages (ICI damages). She requested Mr. Neaman explain the benefits of this type of insurance. Mr. Neaman stated it is standard practice for the Department to require contractors to carry this type of insurance and he would recommend the Plan not to accept transference of ICI damages. He explained any glitch in the LRS product resulting in damage to the Department's software or data would be labeled as an ICI damage. Mr. Neaman stated LRS has indicated they believe the probability of ICI damages to be low. He stated the transference of responsibility from LRS to the Department is unacceptable according to Department policy. Mr. Neaman added the Department is splitting the cost of Professional Liability insurance with LRS and he believes ICI damages to be covered by this type of insurance. He stated the insurance carrier is unwilling to discuss the policy with the Department even at the request of the insured. Mr. Neaman questioned the purpose of the insurance fee split if the ICI damages are not covered. Ms. Bhatia stated LRS had suggested they

could self-insure; however, their insurance carrier stated self-insurance would jeopardize the insurance policy, so LRS is no longer offering self-insurance. Mr. Neaman indicated LRS has given Staff two options: 1) If the carrier will offer full coverage for ICI damages the Plan must pay for it; and 2) Absolve LRS of ICI damages.

President Romero stated LRS has numerous public plan clients and inquired how the insurance issue has been addressed with those clients. Mr. Neaman stated LRS has indicated they have been successful in excluding ICI damages with other plans.

Mr. Vazquez inquired if the WPERP's policy and guidelines are different than LACERS. Mr. Neaman stated he could not speak to LACERS' policy and guidelines; however, he could research the provisions. Ms. Bhatia explained Staff has reviewed a copy of the LACERS' contract and LRS was absolved of ICI damages. Ms. Bhatia commented ten years ago, when LACERS and LRS entered into contract, insurance issues probably were not reviewed as carefully. Mr. Neaman added LACERS probably did not have a professional risk management staff to negotiate contracts.

Mr. Canzano inquired if LRS led Staff to believe ICI damages would be included and subsequently backed out.

Mr. Tom Harrington, Retirement Plan Office consultant, approached the podium. President Romero recognized Mr. Harrington.

Mr. Harrington explained when LRS responded to the RFI, certain suggestions regarding insurance were made. He indicated the ICI damages clause has always been present. Mr. Neaman stated LRS raised the issue of being absolved of ICI damages early in the RFI process.

Mr. Moore inquired if it was agreed upon to split the cost of professional liability coverage in order to provide coverage for ICI damages. Mr. Neaman responded in the affirmative stating he has never read a professional liability policy in which ICI damages were not covered. He stated in this case he was unable to confirm ICI damage coverage because the insurance carrier will not speak to Department staff.

Mr. Moore articulated he is concerned because LRS is attempting to make a major change to the deliverable schedule issue thereby making the contract fee an undefined cost. He stated although LRS stated early on they did not want to be responsible for ICI damages, the insurance issue is also a cause for concern. Mr. Moore commented LRS's actions do not seem acceptable to him and gives him no confidence LRS is the right firm for the computerization project. He inquired if the issues are being brought on by the LRS project managers who would actually build the system, or by the LRS insurance or legal staff. Mr. Moore asked if it was possible to negotiate with a higher level of LRS management to resolve the issues and get the project back on track. He questioned if it was time to discuss not proceeding with LRS and instead initiate discussions with JEA. Ms. Bhatia explained Staff has conversed with Dan Jordan, the head of the LRS team. She stated Mr. Jordan is on standby and currently available to speak with the Board via telephone. Ms. Bhatia stated LRS has claimed the fee increase due to time overruns has not been an issue with other LRS clients; however,

when Mr. Tom Harrington, Retirement Plan consultant, did a reference check of LRS clients the feedback consistently indicated the actual implementation schedule was longer than the initial time estimate. She added time overruns were a concern and initially when Staff inquired of LRS if the time overruns resulted in a fee increase, the firm responded in the negative. Ms. Bhatia stated LRS has indicated they are willing to answer questions, however, there is nothing more for them to offer. She stated she had hoped to negotiate a twenty-month implementation schedule.

President Romero inquired if LRS's new implementation time of eighteen months is reasonable. He also inquired if LRS would specify in writing their definition of reasonable and unreasonable delays. Ms. Bhatia responded any delays caused by LRS would not result in time delay charges.

Mr. Tom Harrington, Retirement Plan Office consultant, approached the podium. President Romero recognized Mr. Harrington.

Mr. Harrington explained LRS is offering to allow the original ten-month implementation be prolonged to eighteen months due to delays on the part of the Department, after such time, any delays caused by the Department will result in discussions to decide if there would be an increase in fees. He stated LRS has indicated they would be flexible with an occasional one-week delay; however, the company does not want several years to lapse before completing the project. Ms. Bhatia stated LRS has determined a time overage of greater than 50% of the originally quoted implementation time could result in additional fees. Attorney Wilkinson commented part of the frustration is the way the contract was written. He states the issue of time delays is noted under the "Change Order" section. Attorney Wilkinson expressed if an added feature results in a change order for which an additional fee is assessed, Staff does not believe it is appropriate for the time associated with implementing the additional feature be considered in calculating unreasonable time delays. Mr. Harrington added LRS has not made clear the cost of any time delays.

Mr. Vazquez stated he believes it is reasonable for a firm to charge a client time slippage fees once a project is over 50% past the original scheduled timeframe. Mr. Moore stated he believes the Board should consider having LRS attend the next Board meeting to discuss the issues and inform them the contract is at risk. He stated the Board must decide if contact should be made with JEA. Ms. Bhatia responded she has already informed LRS the contract may be at risk. Mr. Neaman and Mr. Harrington both expressed they feel LRS is not willing to negotiate any additional provisions.

Responding to a question from Mr. Moore, Mr. Harrington stated the pros and cons must be weighed. He stated it must be decided if LRS is the best company and if the 18- month time frame is acceptable. Mr. Harrington added if negotiations with JEA are entered into, there is no guarantee problems will not surface. He stated it is a difficult decision at this point, however he believes it is a take it or leave it matter with LRS.

Mr. Vazquez inquired of Mr. Harrington what negative feedback was received from the reference check he did of past LRS clients. Mr. Harrington replied the overall satisfaction was high. He noted none of the clients had received nearly as short an

implementation schedule as ten-months. Mr. Harrington stated LRS was highly recommended by San Bernardino County.

President Romero asked if San Bernardino County's insurance provisions are very different than the Plan's. Mr. Harrington responded he believes so. President Romero inquired about any historical information relating to losses. Mr. Neaman responded LRS has stated they have not had any losses in the ICI area.

President Romero stated he is concerned because even if the Board were to proceed with JEA the insurance requirement may still be a problem. He added the computerization project is really important and must be done. President Romero questioned at what point would the Board be willing to bend a little on the insurance requirements. Mr. Harrington commented out of the three finalists only LRS and JEA had price quotes in the million-dollar range. He noted the third finalist offered a quote of \$2.5 million.

President Romero inquired if JEA should be approached to find out if they can meet the insurance requirement. He noted at the same time LRS will have time to reflect on the possibility of losing the bid.

Mr. Vazquez inquired if Staff had a recommendation on how to proceed. Ms. Bhatia stated Staff did verify ICI damages were not included in the past LRS contracts. She stated she does not have a comfort level with locking the Plan into unpredictable changes in contract price. Ms. Bhatia stated Staff recommends attempting to negotiate with LRS one more time in hopes to have the implementation time extended to twenty-four months. She stated Staff is not interested in prolonging the implementation for two years, but will request the time only to provide protection for unanticipated time delays. Ms. Bhatia stated there have been various issues Staff has had to plow through with LRS and the insurance and implementation schedule are the main remaining issues. She stated system implementations are notorious for time delays and it would be irresponsible to accept the eighteen-month time schedule and agree to price changes thereafter. Mr. Harrington inquired if it would be helpful if LRS were required to quantify any potential price increases due to time slippage.

Mr. Canzano stated consideration could be given to a time estimate that is greater than the median time frame for completing projects of similar size and scope as the Plan. He commented great measures were taken to come up with an insurance solution that would work. Mr. Canzano indicated if the offer made by LRS is the last, best and final offer, it does not appear the company is living up to what was originally presented to the Board. Mr. Harrington stated he believes LRS would respond it was made clear from the beginning any changes in scope to the project would result in fee increases. Attorney Wilkinson noted the language regarding the fee increases was recently added by LRS.

Mr. Moore inquired if the language regarding delays caused by the Department is clear so as to not allow LRS to deem all delays "caused by the Department." Mr. Harrington responded he believes it is not always clear which party caused the time-delay.

Ms. Bhatia suggested Staff could request for LRS representatives attend the next Board

meeting. She stated Staff would again try to negotiate the time frame issue, and noted she does not believe LRS will offer any new terms regarding the insurance. President Romero suggested LRS attend the October 4, 2006 Regular Board meeting.

Mr. Canzano asked if LRS is invited back for additional discussions, is it reasonable to also bring in JEA. He stated JEA fully satisfied the insurance requirement. Mr. Canzano stated if LRS is brought back in he believes it is important for JEA to come in as well. Ms. Bhatia inquired if the Board was in agreement with paying the additional fees for any time slippage beyond 18 months. President Romero responded he does not believe it is unreasonable for LRS to assess time slippage fees after 18 months. He stated, at a minimum, Staff needs to do everything possible to ensure the project is completed on time. Attorney Wilkinson stated he is concerned at LRS suggesting a different price than what was originally offered. He stated his legal advice is to keep the original price and try and negotiate a reasonable time frame.

President Romero suggested Staff attempt to arrange for LRS to attend a Board meeting so the items in dispute can be discussed.

Mr. Harrington returned to the audience. Mr. Neaman left the Board meeting.

07-20 16. Discussion and possible action to approve a proposed 16.1 – 16.38
amendment to the Water and Power Employees'
Retirement Plan (Plan) to establish a Retiree Health
Benefits Fund as part of the Plan

Mr. Rue approached the Board table. President Romero recognized Mr. Rue.

President Romero inquired if Financial Services Organization (FSO) would continue doing the ongoing accounting work for the Retiree Health Benefits Fund. Ms. Bhatia responded in the affirmative.

President Romero stated there is a cost of \$19 million and inquired if the Plan would bill the Department this amount. Ms. Bhatia stated she is expecting to bill the Department for the actuarial reviews and all additional fees incurred. Mr. Vazquez clarified the actuarial reviews would be conducted by the Department's actuary and funded by the Department.

In response to a question by President Romero, Mr. Vazquez stated the Department would cover all administrative costs of the Retiree Health Benefits Fund.

President Romero inquired how to determine the amount of incremental cost the Plan will be billed. Mr. Rue responded after the asset liability study is conducted, PCA would review asset-liability options with the Board. He stated the cost would be set by the option the Board chose.

President Romero inquired if the Board was considering a separate asset liability study

for the Health Plan Fund due to the risks and future income required. Mr. Rue responded the asset liability study would review both the Plan and the Health Plan Fund to determine if separate asset allocations should be established.

Mr. Moore inquired if the asset liability Mr. Rue was describing is the same study the Board had already discussed having conducted. Mr. Rue responded in the affirmative.

Mr. Rue commented PCA is addressing only the incremental steps relating to the investment aspect. He stated there might be administrative tasks PCA has not considered. Mr. Vazquez stated the Department has prepared a board package to go to the Water and Power Board of Commissioners upon the Retirement Plan Board adoption of Resolution 07-20. He stated the transfer of funds has been authorized and it is anticipated this would take place in December of 2006 when most of the Health Plan Fund's current securities would mature. Mr. Vazquez stated the transfer would primarily be a cash infusion into the Plan. Ms. Bhatia stated Staff met with Mr. Mario Ignacio, Financial Services Organization, and it was indicated 40% of the portfolio would mature and the rest would be taken over as is or liquidated.

President Romero inquired if Mellon Bank would definitely be used to transition the funds. Ms. Bhatia responded in the negative and indicated Mellon would be the custodian bank. President Romero inquired which bank would transition the funds. Mr. Rue clarified there would be a transfer of funds into the Plan's custodian bank. He stated after the funds are transferred to the Plan then a transition process could take place. Mr. Rue stated he anticipated using a transition manager to allocate some of the assets into equities. He stated Mellon Bank is the custodian and they have a decent transition expertise, however, another bank could be used to transition the funds.

President Romero inquired if a pre-trade analysis will be conducted with several potential transition managers. Ms. Bhatia explained currently the Plan has existing agreements with the Bank of New York and State Street. She stated the Plan is also in the process of creating an agreement with Mellon. President Romero inquired if Staff will have pre-trade analysis from several of the potential transition managers. Ms. Bhatia explained usually a pre-trade analysis is received from a couple of the managers.

Mr. Canzano stated he was gratified there was a meet-and-confer on the Health fund issue. He stated he applauded Mr. Deaton and Mr. Brian D'Arcy, Business Manager of Local 18-International Brotherhood of Electrical Workers, for signing the Letter of Intent. Mr. Canzano commented he appreciates the sections of Resolution 07-20 which read "...no responsibility for establishing or maintaining the level of funding of the new Retiree Health Benefit Fund will be placed on the Retirement Board ..." and "... Retirement Board will not be taking on any responsibility for the funding of the new Fund or for the adequacy of the new Fund to provide benefits." He stated he would like to acknowledge Staff's efforts in providing the information to the Board.

Mr. Moore commended Department management and Local 18 for moving ahead on the matter. He stated he was very anxious to see this item move forward.

Mr. Moore moved approval of Resolution 07-20. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore, Vazquez

Nays: None

Mr. Rue returned to the audience. Mr. Vazquez requested Item 18 be taken out of order because he was not going to attend the PCA educational seminar.

18. Retirement Plan Manager's Comments
General Items

Item 18 was taken out of order.

Ms. Bhatia stated she was pleased to announce the addition of two new staff members to the Retirement Plan Office. She indicated the two positions filled were Management Analyst II and Utility Administrator I. Ms. Bhatia stated the new Staff members would be brought before the Board at the next Board meeting.

President Romero called for a break at 11:37a.m. Mr. Vazquez left the meeting at the break and stated he would not return. The meeting reconvened at 11:47 a.m.

17. Educational seminar by PCA **17.1**
a) Private Equity
b) Hedge Fund-of-Funds

Ms. Bernstein, Mr. Tad Ferguson, and Mr. David Sanchewich of PCA approached the Board table. President Romero recognized Ms. Bernstein, Mr. Ferguson and Mr. Sancewich.

The representatives of PCA provided the Board with an educational seminar on Private Equities and Hedge Fund-of-Funds.

19. Future agenda items

There were no future agenda items.

The Board meeting was adjourned at 12:44 p.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

VIKKI BURKS
Recording Secretary