

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

MINUTES – September 20, 2006

Present:

Javier Romero	President
Ron Vazquez	Chief Financial Officer
Cindy Coffin	Board Member
Eugene Canzano	Board Member

Absent:

Forescee Hogan-Rowles	Commissioner
Michael Moore	Retiree Member
Ronald Deaton	General Manager

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
David Sancewich	Pension Consulting Alliance
Sarah Bernstein	Pension Consulting Alliance
Michael R. Wilkinson	Deputy City Attorney

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

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero inquired if there were any public comments. There were no public comments.

1. **Approval of Board Minutes**
 - a) **July 5, 2006 (Regular Board Meeting)**
 - b) **July 19, 2006 (Regular Board Meeting)**

2. **Termination from Monthly Rolls as of September 2006**
Retirement Resolution for September 2006
Resolution terminating Iva M. Craft from the August 2006
Survivorship Roll as a result of her death

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

Ayes: Romero, Coffin, Canzano, and Vazquez

Nays: None

- 3. Report of Payment Authorizations as of August 2006**
- 4. Notice of Deaths for August 2006**
- 5. Report on Status of Insurance as of August 31, 2006**
- 6. Summary Investment Returns as of August 31, 2006**
 - a) Market Value of Investment by Fund and Month as of August 31, 2006**
 - b) Market Value of the Retirement, Death & Disability Funds as of August 31, 2006**
 - c) Investment Returns as of August 31, 2006**

Mr. Canzano moved the above items 3 through 6 be received and filed. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Vazquez

Nays: None

- 7. Report on Proxy Service Provider Finalists On -Site Visits and Possible Selection of Proxy Service Provider**

Ms. Sarah Bernstein and Ms. June Kim approached the Board table. President Romero recognized Ms. Bernstein and Ms. Kim.

President Romero introduced Item 7 stating staff and PCA went on an onsite visit of both Institutional Shareholder Services (ISS) and Glass, Lewis & Co., LLC's (Glass Lewis).

Ms. Bernstein reminded the Board they selected ISS and Glass Lewis as the proxy service provider finalists. She stated both staff and PCA feel both candidates are highly qualified to provide all the services the Board is looking for in the proxy services field. She indicated there were a couple of outstanding questions with ISS even though they are a much larger and more established firm.

Ms. Bernstein stated the first question is regarding an organizational issue. She referred to a newspaper article stating the firm may be up for sale. She informed the Board that PCA is recommending Glass Lewis. She stated in meeting with them she had high confidence in them, their technology seemed to be working fine, and they also receive very high marks in client service. Ms. Bernstein mentioned Glass Lewis is asking for a higher fee than ISS, but she did not feel it was out of range at all. However, it may be necessary to negotiate on the long-term fee.

Ms. Kim indicated staff agrees with PCA's recommendation. Ms. Kim noted Glass Lewis does not have the Sudan research that ISS has and includes at no additional fee. She stated Glass Lewis has a higher fee and essentially the Department would be getting a little bit less. However, Glass Lewis provides some comfort in terms of conflict of interests or organizational issues. Ms. Kim stated Glass Lewis is a newer firm and their system has only been through one complete proxy cycle so there might be some risk issues there, although there were no reported problems and the system seems robust.

President Romero inquired if initially the proxy provider would be voting the existing guidelines or is the Board going to meet at a later time to discuss issues of poison pills, child labor, etc. He further asked if the Board goes in this direction will they give the selected firm direction. Ms. Bernstein responded the idea was that once the Board decides on a proxy service provider and hires them, then they will review the existing guidelines and vote them. She stated the present guidelines are a few years outdated, so the Board would use the firm's services to help walk them through the existing guidelines, update them, and discuss any suggestions they might have. She informed the Board that the big proxy season starts in January so the Board should get the guidelines in place and resolved by fall.

Mr. Canzano noted ISS has a dedicated Department to deal with the Darfur, Sudan issues and he remembers reading Glass Lewis stating there were some areas in which they could provide assistance. He then inquired, if staff has confidence that they will be able to work with the Board on that particular issue so that the Department is in compliance with the Mayor's directive. Ms. Kim responded that Glass Lewis is qualified to assist on the Darfur issue but it is not something that is readily available. She added there will be work that needs to be done and there will probably be an extra charge. Mr. Canzano inquired if Ms. Kim was comfortable that Glass Lewis could adequately support the Department's needs in that respect. Ms. Kim responded that ISS has been doing Sudan research since 2001 so they already possess a lot of depth and breadth regarding this issue. Therefore, someone new to the area would not do as detailed of a job. However, for what the Retirement Plan requires it will be sufficient. Ms. Bhatia added that Glass Lewis does have access to the data, so it would just be a matter of working more with them, while ISS is offering available research that they have done for other companies. Ms. Bernstein commented that some of the other pension plans going through the same exact issues regarding Sudan and using ISS are not using ISS research, and are going to experts on Sudan instead. She expressed she did not think it was a make or break issue for the Plan's long term, immediate needs, corporate governance issues, or proxy service issues.

Mr. Vazquez noted that Resolution 07-23 states, "Whereas, PCA recommends that the Board retain". He stated if the Board decides to do this then he would like staff's recommendation included in the resolution because staff is more or less deferring to PCA and would have recommended ISS mainly due to the availability of Sudan research, lower fees, established structure, and length of experience.

Mr. Vazquez pointed out that ISS has 1,600 clients with 550 full-time employees, whereas Glass Lewis has 200 clients and 65 full-time employees. He stated when there is a question on how to vote, ISS makes a recommendation and Glass Lewis does not. Ms. Bernstein clarified that both firms make recommendations and have the same types

of processes, but different emphasis in their research. She explained that both firms have their own set of recommendations, which the Board is welcome to use. However, the Board may decide to go with their own guidelines and have the firm assist in developing specific guidelines. Mr. Vazquez noted that at the top of page 7.3, in staff's write up it states, "Glass Lewis has a "non-recommendation" style research; they will present the pros and cons. But unlike ISS, Glass Lewis will not make a specific vote recommendation." Ms. Kim responded that particular sentence describes Glass Lewis's style but if they are requested to make a specific recommendation, they will. However, they do not have a standard policy approach. Ms. Bhatia added that Glass Lewis adheres to the client's proxy guidelines and if asked they will present the pros and cons. She stated ISS actually takes a stand on several issues. Ms. Bernstein stated on the upside she thinks when the Board does final negotiations, staff should work with the selected firm to make sure there is enough cushion up front on domestic stocks and get a realistic sense and a bundled fee from day one, rather than being right on the edge to get the cheapest price possible. Ms. Bernstein added that there is not much room for negotiation but PCA would be happy to negotiate getting as best of a price possible if fees are an issue in their selection. Mr. Vazquez expressed it seems that PCA's primary reason for recommending Glass Lewis is due to the uncertainty of the ownership issue with ISS. He then inquired what were the concerns and issues in terms of operations if ISS was acquired by someone else. Ms. Bernstein responded that both firms were great and can provide the services. However at this point in time, Glass Lewis seems to have a better reputation for higher levels of service. She pointed out that the two issues that did arise for ISS are definitely the potential organizational change and the conflict of interest issue of them having two businesses within their firm (proxy voting service for clients and a division offering proxy services to corporations). She explained the firm has an actual structural conflict of interest, but it is managed by keeping the staff separate and in a separate building. Ms. Bernstein pointed out that ISS's vote records reflects some bias towards voting with management more often when they have a corporate client. She stated, with regards to the overwriting issue, anytime you have a manager come in, PCA will place them on watch immediately if there is a big organizational upheaval.

Mr. Vazquez recommended adoption of Resolution 07-23, if it is changed to indicate staff and PCA are making the recommendation. President Romero inquired if staff concurs. Ms. Bhatia responded in the affirmative. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Ms. Kim returned to the audience.

8. Presentation by PCA on Hedge Fund-of-Funds Semi-Finalist List – Discussion and Possible Action

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

Mr. Sancewich informed the Board that the hedge fund-of-funds semifinalist list was narrowed down to sixteen firms. He then provided the Board with a refresher on the candidate selection process. Mr. Sancewich indicated that PCA would be conducting onsite due diligence with the semi-finalists with approximately four to five managers coming to present before the Board as finalists in November. President Romero inquired if the Board would be selecting two finalists. Mr. Sancewich responded that two to three finalists was the original plan. Mr. Canzano commented it was his understanding it was decided to have 2 managers allotted \$30 million each, rather than 3 managers allotted \$20 million. Ms. Bernstein informed the Board this could be readdressed once we see the actual firms and what they are offering.

Mr. Vazquez noted that PAAMCO replaced another firm and inquired what was going on with this. Mr. Sancewich responded that the way Collingham Capital had their fund listed in the database was incorrect and PAAMCO was next on the list to get an RFI. Mr. Vazquez noted that PAAMCO did not make PCA's manager shortlist. Mr. Sancewich responded PAAMCO was right before the cutoff and were the next alternative to put in place of Collingham Capital.

Mr. Canzano moved the approval of PCA's short list of hedge fund-of-funds semifinalist. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

9. Resolution to Ratify the Board's Action to Revise the Minimum Qualifications Section in Future Requests for Proposals (RFP) Used by the Water and Power Employees' Retirement Plan (WPERP) for Manager Searches

Mr. Canzano moved approval of Resolution 07-24. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

Item 11 was taken out of order.

11. Retirement Plan Manager's Comments
a) DWP Plan Newsletter for Retirees (August 1, 2006, Edition)
b) General Items

Ms. Bhatia informed the Board that progress had been made with the negotiation with LRS in a conference call yesterday. She stated at the last Board meeting she reported that LRS wanted to insert language to charge the Department for schedule slippages on the part of WPERP if the timeframe exceeded 18 months. Ms. Bhatia indicated that a compromise was reached and staff agreed to 22 months. She stated she did not have a specific update concerning LRS's insurance provisions. However, Mr. Neaman is

looking into it and it should be resolved later today or tomorrow. Ms. Bhatia added that apparently LRS's current policy covers the provision, but confirmation is needed.

Ms. Bhatia reported that she received a copy of a message from the Board of Commissioner's secretary indicating the Mayor's staff requested a meeting regarding the update on the Darfur issue. She stated the email was addressed to Mr. Vazquez and he could state whether or not the meeting occurred. Mr. Vazquez stated the meeting did not occur and should be scheduled some time next week. He stated the Mayor is requesting a meeting with the Department's Board President and the other pension systems to go review their holdings. Mr. Vazquez indicated he furnished Mary Nichols with all of the materials from the two Retirement Board meetings and the memo from PCA that more or less gives the pros and cons, what we can and cannot do, and the downsides.

Mr. Vazquez mentioned he received a request from the Mayor's Office this morning for a listing of all investments the Department has in any Asian companies. He indicated he sent an email to Ms. Bhatia and Ms. Carranceja because the Mayor is going on a trip to Asia.

Mr. Vazquez reported that the Department approved the amendment to the Plan to transfer the Retiree Health Care Trust Fund to the Retirement Plan. He stated it was anticipated we will be transferring those \$500 million in assets sometime in mid-December, at which time about 40% of those assets will be in cash. Ms. Bhatia added that staff would be bringing the post-retirement health care item back to the Retirement Board for adoption. President Romero inquired if there would be a follow-up resolution. Ms. Bhatia responded in the affirmative, adding that staff would begin working with Mellon Bank regarding the transfer.

President Romero stated, in addition to completing the asset allocation, he feels the next most important item is completing the computerization project. He expressed his appreciation of staff's work and efforts in dealing with such a difficult contract.

Mr. Canzano inquired if there was a resolution regarding Ms. Marti Barnidge. Mr. Blunk responded that he and Ms. Barnidge discussed her issue and she is in the process of pulling records for submission for staff to reconsider the previous decision.

Mr. Canzano inquired if there had been a resolution regarding Mr. John Hill's issue of withdrawing the balance in additional contributions in a lump sum amount unless the annuity would be \$75 or less a month. Ms. Bhatia responded the information presented previously regarding Mr. Hill's issue was resubmitted at either the last Board meeting or the prior one. She stated the General Manager's Office requested staff look into the cost of implementing Mr. Hill's request and she forwarded this request to Financial Services because that would be under a different contract. Ms. Bhatia stated she was not certain whether it is being reviewed or has been deferred based on the RFP process that office is currently going through. She stated, at this point, it is a meet and confer process and this has been conveyed to Mr. Hill. She added if an actuarial valuation needs to occur then it would need to go through the Department's contract with the Segal Company. She added that she forwarded this information and request to Mr. David Ulm.

10. Fund Strategies Roundtable

A discussion and educational regarding hedge fund strategies ensued.

The Board meeting was adjourned at 12:00 p.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary