

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

MINUTES – January 17, 2007

Present:

Javier Romero	President
Eugene Canzano	Board Member
Cindy Coffin	Board Member
Michael Moore	Retiree Member

Absent:

Ronald Deaton	General Manager
Forescee Hogan-Rowles	Commissioner
Ron Vazquez	Chief Financial Officer

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Irene Colón Gonzalez	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney

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

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero inquired if there were any public comments.

Mr. David Malacek of Bank of New York approached the podium. President Romero recognized Mr. Malacek.

Mr. Malacek informed the Board that Bank of New York was in the January 8 issue of *Pension & Investments* due to the acquisition of Mellon Financial that would be closing the second quarter of 2007. He stated the firm will be named Bank of New York Mellon Corporation and will put them at number 1 in global custody in the world with \$16 trillion in corporate trust business, in the top 3 in cash management, in the top 5 in U.S. asset management, and in the top 10 in global asset management. Mr. Malacek reported the brokerage firm will continue as 12th in volume in the New York Stock Exchange, pushing rates behind City Corp, Solomon Brothers, and Smith Barney. He stated in the firm's

GTM transition management business they closed out the year somewhere around 1,600 transitions last year and they will work out the details with Mellon some time this year. Mr. Malacek returned to the audience.

Mr. Larry Cheshier (DWP Employee) approached the podium. President Romero recognized Mr. Cheshier.

Mr. Cheshier explained that he is preparing to retire and is caught in a situation where the Plan granted the 2.3% factor and he ended up accruing 103% of his salary towards his retirement. He filed for retirement and Mr. Blunk notified him that he would lose 3% because it is based on 100% of his salary. Mr. Cheshier indicated he has since consulted with a lawyer who feels that according to Article IV, Section E, he has a case. He stated he is taking option D which would drastically reduce his retirement. He asked Mr. Blunk what would happen to the 3% and Mr. Blunk informed him he would just lose it. Mr. Cheshier stated there has been no notification to the members of this issue in the past to his knowledge. He acknowledged this was a unique situation, but he feels the Retirement Office may run into this issue again and it should be addressed. Mr. Cheshier expressed that his contention is, according to Article IV, what an employee is paid and what they accrue is two different things. He stated Mr. Blunk conferred with the City Attorney's Office who felt they were on firm ground. However, his attorney feels he has a very good case. Mr. Cheshire informed the Board that he does not want to pursue the issue legally unless he is forced to.

1. **Approval of Minutes of November 1, 2006 (Regular Meeting)**
2. **Termination from Monthly Rolls as of January 2007:
Retirement Resolution for January 2007
Termination of Thomas P. Hahner from the January 2007 Permanent Disability Roll – reached termination age of 65
Resolution terminating Lois E. Scott from the January 2007 Survivorship Roll as a result of her death**

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

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

3. **Report of Payment Authorizations as of December 2006**
4. **Notice of Deaths for December 2006**
5. **Report on Status of Insurance as of December 30, 2006**
6. **Summary Investment Returns as of December 30, 2006**
 - a) **Market Value of Investment by Fund and Month as of December 31, 2006**
 - b) **Market Value of the Retirement, Death & Disability Funds as of December 31, 2006**
 - c) **Investment Returns as of December 31, 2006**
7. **Notification by Plan Auditors Macias, Gini & O'Connell LLP regarding acquisition of tax firm Essary, Dal Porto & Lowe LLP**

8. Report from Pyramis Global Advisors a Fidelity Investments Company - Gratuities Update; Findings of the Independent Trustees

Mr. Moore referred to the Summary Investment Returns chart on page 6c.1 of the Board package and suggested that, in addition to the statistics given on a yearly basis, it would also be useful if there were a column reflecting the cumulative performance so the Board can see how well the managers have done since inception. He also recommended totals for the various major asset categories.

Ms. Coffin referred to the insurance status for investment managers chart on page 5.1 of the Board package and inquired about MFS' insurance expiring on November 1, 2006. Ms. Carranceja responded that staff just followed up with Risk Management on January 16 and MFS has been fully approved and the new insurance expiration date is November 1, 2007.

Ms. Coffin noted that Fidelity Management Trust under Developed Market International Equity was listed on page 5.1 but not on page 6a.1. Ms. Bhatia responded this was because Fidelity's name was changed to Pyramis and it should have been reflected on both pages.

Ms. Bhatia informed the Board that revised pages were issued for pages 6a.1, 6b.1, and 6c.1. She stated after the Board package had been distributed staff discovered that one of the securities under ING had not been assigned a market value and this would have affected the performance which is reflected on page 6c.1. Ms. Lesley Kuo (Investment Officer) approached the podium and informed the Board that, with regards to the total performance, it was only one basis point for the whole portfolio. Therefore, instead of 9.84% it is now 9.85%.

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

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

9. Resolution to extend Contract No. 142 with Invesco Global Asset Management (N.A.), Inc to January 31, 2010

Mr. Canzano moved the approval of Resolution 07-44 extending Contract No. 142 with Invesco Global Asset Management to January 31, 2010. Seconded by Mr. Moore and carried unanimously after the following vote:

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

10. Presentation by PCA - Discussion of domestic equity structural review and possible action

Ms. Sarah Bernstein and Jeremy Thiessen of PCA approached the Board table. President Romero recognized the PCA representatives.

The PCA representatives presented the Board with a Domestic Equity structural review.

Mr. Moore commented that market timing does not appear to work well and expressed there may be those who are able to shift resources from one type of asset class by looking at the cycles. He then inquired if anyone was doing that in the institutional category. Ms. Bernstein responded in the affirmative, stating they rely much more on quantitative and trading data to make decisions rather than stock selection based on fundamentals. Mr. Moore inquired if there were good statistical or academic studies that have looked at this in terms of the investment manager's ability to do well in this sort of approach. Ms. Bernstein responded that most of the studies say that the market timing approaches are very difficult. Mr. Moore inquired if it was still considered market timing to shift one resource back to the other. Ms. Bernstein responded in the affirmative. She stated it was PCA's general philosophy not to try and outsmart the market in terms of the broad asset classes. She recommended keeping a broad market index and performing over the portfolio.

Ms. Bernstein pointed out an error in which the Russell 1000 value and growth was listed under the small cap and should be the Russell 2000. She also noted there are seven managers in the policy, and since two small cap managers were hired to replace Bank of New York, the policy should be updated.

Mr. Moore inquired if there was a greater consistency of spread between the benchmark and our own equity, because the market was more volatile earlier on than now. Ms. Bernstein responded in the affirmative, stating the portfolio's active risk has gone down compared to the benchmark due to being funded and moving to a portfolio structure that tries to simulate the benchmark but add active stock selection in management. Mr. Moore inquired how much of it is due to the market being less volatile during that period of time versus the way the portfolio has been structured. Ms. Bernstein responded this was a good question and it is probably an element. Mr. Thiessen pointed out that the numbers in the report also reflects the excess risk which is in excess of the benchmark. So while both the portfolio and the benchmark may have reduced in volatility, the portfolio in excess of its benchmark has produced dramatically. Ms. Bernstein reported the portfolio is slightly overweight in large cap and in value relative to the policy target. She stated the main cause of this, at the current juncture, is that the portfolio is holding a lot of assets that are targeted for alternatives and cannot currently be invested in the passive account. She stated the result is a small cap underweight of 20% to the policy benchmark.

Ms. Bernstein stated, in summary, it is a well-constructed portfolio of diversified managers, and the excess risk has been dramatically reduced since moving from three managers on a nondiscretionary basis to the current structure. She further stated that the active managers have added value and are producing fairly low tracking error overall.

Ms. Bernstein proceeded to the next section where it talks about what the Board wants to do given where the domestic equity portfolio stands right now. She stated that given what has been seen in the holdings analysis, PCA feels that one of the goals should be rebalancing the small cap underweight and coming back to the market weighting.

Secondly, the Board might want to consider adjusting the active versus passive exposure by accepting more active manager risk in the portfolio. She also suggested increasing the policy from 50% active to 60% active, and if so, do it on a pro rata basis. President Romero inquired when the next asset liability study was going to be scheduled. Ms. Bernstein responded in the summer after the rebalancing of the domestic equity portfolio. President Romero expressed he felt it would be best to do the asset liability study first and then determine what risk we really need to get into. Ms. Bernstein responded that was a very sound suggestion. Ms. Bhatia commented that some of the overweight on the passive side is present due to the funds for the alternative and real estate investments. Ms. Bernstein stated it can all be kept in passive, but that is what is affecting the out of balance. She then suggested rebalancing so that some of the active managers are holding some of the alternative targeted assets because those are going to take a few years to deploy. She explained the portfolio is going to be unbalanced according to the existing policy and targets of active versus passive with the current implementation plan. Mr. Canzano expressed his concern that as the business cycle shifts, the active management would show similar results. Mr. Moore expressed he was comfortable rebalancing in the sense of addressing the reweighting in terms of small cap versus large cap. He stated, with regards to the passive versus active, he is much more comfortable with what President Romero suggested in waiting for the new asset allocation study. Mr. Moore pointed out that some of the active managers are having trouble achieving the benchmark. Ms. Bernstein responded that if the Board wants to move to additional active management there is a dual question of: 1) do you have confidence in the managers taking the active risk; and 2) do you have enough confidence in the managers to increase their allocation. Mr. Moore commented if the Board decides to go to pure passive, approximately 35 basis points can be picked up in the fees. He stated the only reason one would want to go with active managers is if you really expect over time that they are going to outperform the benchmark. Mr. Moore expressed he was constantly surprised at the managers' inability to do so and, that being the case, he wonders why they are being paid so much. Mr. Moore indicated he was not involved with the first asset allocation until it was basically in place, but he got the impression, based on discussions afterwards, that some of the allocations were based on the comfort level of the Board and a rigorous statistical analysis of where the exact line was for the efficient frontier. Ms. Bernstein responded that the efficient frontier is going to be based on what you want to get out, so it is efficient within parameters. Therefore, one has to assume certain risk levels. Ms. Bernstein noted she was not involved in the first asset allocation either, but her understanding is that it was driven by Board comfort.

The Board meeting was interrupted by an announcement on the DWP intercom system regarding a duck, cover, and hold earthquake drill that would be taking place that morning.

Ms. Bernstein explained that the asset liability study would address the broad asset classes. She stated if the Board decides to shift out of domestic equity into something else, it would affect the discussion. President Romero pointed out that the decision that was made then was based on the liabilities at that time. However, there have been changes in the liabilities, and our assets and the risk parameters. He explained there are going to be changes based on the Board's decisions and what asset class we want to shift to is going to be this Board's decision.

Mr. Canzano inquired about the frequency of the asset liability study. Ms. Bernstein responded the study is conducted every four to five years. She explained that PCA has two ways of performing the study, an asset driven study with some liabilities and then a more detailed one. She stated PCA will probably suggest the more detailed liability driven study this time, which will cost a little more and is a separate project item because they team up with one of the experts in the field. She suggested the discussion be placed on the agenda so PCA will know which way to go and can start working on the asset liability study sooner rather than later. Ms. Bhatia commented there is also expected to be an asset liability study for the healthcare assets and the contract had already been amended to add fees for this. Ms. Bernstein stated you are going to do some kind of asset liability study to even get going in there and begin setting a policy for your new Other Post Employment Benefit (OPEB). She then suggested putting both items on the agenda. President Romero inquired about Ms. Bhatia's thoughts on the asset liability study. Ms. Bhatia responded it was expected to be performed and had been discussed with Mr. Neil Rue (PCA). She stated the understanding was that the 60% in new assets pertaining to the healthcare assets have been temporarily parked with Merrill Lynch and 40% with Wells Capital. This is with the understanding that, based on the results of the study, it would be determined how those assets would be invested, that is whether to invest with the other managers in the other asset classes or have them remain where they are. She stated the retirement asset liability study for the Retirement Plan assets needs to occur and actually be written into the contract. She stated, as Mr. Moore mentioned, we need to really look at which managers are adding value in terms of the fees being paid for active management, which are contributing to the bottom line as far as the returns go, and the fee structure as far as meeting the benchmark. Ms. Bernstein stated, in terms of the timeline, it probably makes sense to do the retirement plan asset liability study first and then follow it with the OPEB in order to have the fundamentals down.

Mr. Canzano inquired if the asset liability study was going to be agendaized. Ms. Bhatia responded that a schedule from PCA was going to be brought back in terms of what the deliverables are this year. Ms. Bernstein stated at the meeting after next she wanted to walk the Board through the different options available of the types of asset liability studies available. Mr. Moore inquired if the asset liability study would be conducted before the asset allocation study. Ms. Bernstein responded they were in conjunction with each other. However, the asset liability analysis definitely has to be performed and out of that flows the allocation options and recommendations. Mr. Moore inquired if after coming up with allocation options would PCA sit down with the Board for discussion. Ms. Bernstein responded in the affirmative.

Mr. Moore noted that at the bottom of several pages in PCA's booklet there were colored bar charts reflecting the expected alpha, tracking error, and information ratio. He then inquired what was behind this in terms of the sophistication of the models PCA used in coming up with this information. Ms. Bernstein responded that the information ratio was the ratio between the two numbers, the expected alpha, and the tracking error. Mr. Thiessen explained that, from this point forward, the colored charts are a look forward based on expectations. He stated, based on the returns based analysis and holdings based analysis for each manager, they input how each manager is expected to perform in terms of alpha and excess risk. Mr. Moore inquired how PCA came about

arriving at a particular alpha. Mr. Thiessen responded the alpha is selected by taking a look at prior performance in terms of returns-based analysis and longer returns for the products they are in and then they make an assumption going forward.

President Romero inquired if the Board wanted to rebalance for now to maintain the policy standards. Mr. Canzano commented he did not think any of the Board members have a problem with rebalancing the small cap to hit the target. Mr. Moore indicated the only question he had in that regard is that there is one chart showing the target versus what the actual benchmark is. He stated it was his assumption that when the target was originally developed it was tied directly to where the benchmark is, which has moved a little bit since then. He then inquired if they would rebalance with the target or with the actual benchmark. Ms. Bernstein responded it would be rebalanced back to the benchmark. She explained there is a sort of duality imbedded in the policy as both the benchmark and the stated targets. She recommended if the Board chooses not to change the policy they should rebalance back to the policy. She then requested time to think about it further and get back to the Board. Mr. Moore expressed he would be comfortable rebalancing back to the benchmark because it makes more sense being that things are structured that way. Ms. Bernstein reiterated rebalancing to the benchmark and adjusting the policy to reflect the nuance so that no one is unclear going forward. Ms. Bhatia expressed her concern with the date of the information because in some places it said September 30, 2006. Ms. Bernstein responded that this would have to be taken into account when rebalancing.

Ms. Bhatia pointed out that staff had actually started to withdraw funds from those managers where there is an overweight. She then inquired if this was the same PCA recommendation that was brought up previously or a totally new one. Ms. Bernstein responded that this is just within domestic equity and is complimentary to the overall rebalancing. The overall rebalancing looks at all the asset classes if you are overweighted fixed income versus equities, and this is just highlighting what is going on with equities. She added that it should just be done in conjunction and they should sit down and make sure that the numbers tie up. Ms. Bhatia recommended that the information be updated first.

President Romero noted that, from their responses, the Board appears to feel comfortable with rebalancing to the benchmark.

Mr. Moore made a motion to rebalance to the benchmark. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore.
Nays: None

President Romero requested PCA submit a schedule for the allocation. The PCA representatives returned to the audience.

11. WPERP Board policy on fiduciary responsibility and social and political issues (including Sudan)

Ms. Bhatia reported that the Governance Committee met on December 20, 2006, and

there was discussion regarding the language for the policy to be adopted on social and political issues (including Sudan). She added that outside fiduciary counsel Attorney Joe Wyatt was present at the meeting. Ms. Bhatia stated previously the policy had been discussed and at the last meeting Attorney Wyatt provided a revised updated document pertaining to the language that should be included in the policy on fiduciary responsibilities in connection with this. She further stated the policy was approved for adoption at the Governance Committee meeting and was being presented to the Retirement Board for information and adoption.

President Romero requested the Board agenda state "Items for discussion and possible action by the Board" before the regular Board items are listed.

Mr. Canzano referred to page 11.4 of the Board package in the last sentence of the first paragraph, wherein it states, "Likewise, doing business with other companies that are themselves engaged in socially injurious activities is not included except in unusual circumstances". He then requested Attorney Wyatt revise the sentence for clarity.

Mr. Moore moved the approval of the WPERP Board policy on fiduciary responsibility and social and political issues (including Sudan) subject to the aforementioned clarification. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano, and Moore

Nays: None

12. Report from the City Attorney on a Request for Proposal for outside legal counsel for securities litigation and monitoring

Attorney Wilkinson reported that in the past the City Attorney's Office has not had any assigned lawyer teams working on securities litigation. He stated that many medium sized and larger pension plans currently have this in place and the Fire and Police and LACERS' Boards were very successful with a separate lawsuit involving WorldCom. He added that the DWP Retirement Plan, as well as the other two pension plans, is currently in a separate lawsuit regarding AOL Time Warner. Attorney Wilkinson explained that the idea is to have a stable of firms that would be available to all the boards for securities monitoring. He indicated the attorney would be on top of all of the potential lawsuits on fraud involving securities. He suggested it might be advantageous for the Board to be involved in this either as a lead plaintiff in a class action suit or as a separate lawsuit. Attorney Wilkinson added that the service is completely free. Attorney Wilkinson stressed that he and Ms. Bhatia had a meeting several months ago with Attorney Manning and Attorney David Michaelson to discuss the overall theory of what they are trying to accomplish as a collaborative effort. He explained that each of the plans will have a staff member involved from the very beginning on the responses of the RFP. He also stated that one team of lawyers would make a presentation to the plans for their approval of the teams. Once the teams are approved they will begin monitoring the function and, when appropriate, take on lawsuits on behalf of the retirement plans.

President Romero noted that years ago when Attorney Donna Weisz-Jones was in charge, the Retirement Board conducted an RFP and hired outside counsel for their

particular expertise. He stated, due to the way the City Charter is written, the City Attorney's Office was utilized because their approval was required. President Romero expressed there was a lot of bad feelings back then due to the process and it was directed more towards the leadership of counsel at that time. However, it is important to him that the Board does not delegate their due diligence to the other two pension plans while picking an attorney. President Romero expressed that the DWP Retirement Plan needs to be part of the process. Attorney Wilkinson responded that President Romero's concern has been expressed by the other two pension plans also. He stated the City Attorney's Office expects this will be a very collaborative process and that staff would be involved at every stage of the proceedings. President Romero expressed that everything should be independent (such as the actuary), and be a thought out, well-written process on how the attorneys are selected and by what criteria. Attorney Wilkinson informed the Board that he had a copy of the RFP that could be distributed for information purposes, adding that the RFP had already been sent out. President Romero inquired if the board members from the other two pension plans reviewed the RFP. Attorney Wilkinson responded in the negative, stating that the responses to the RFPs are being reviewed as they come in and the deadline has not expired. He stated when the responses come in the representative from each City plan and the City Attorney will be reviewing the responses. President Romero inquired of Ms. Bhatia if it is her understanding that someone from the DWP Retirement Office will be part of that evaluation process. Ms. Bhatia responded in the affirmative, based on what is being presented in the memo. However, the conversation she had with Attorney Wilkinson was that this is something that should be presented to the Board and the Board should be informed that this is being looked at. She stated she met with Attorney Wilkinson a year ago and indicated that the Retirement Board members needed to be involved in the process because of past history. Ms. Bhatia noted that the memo states the RFP was issued with a return date of January 19, 2006. Attorney Wilkinson clarified that date was an error. Ms. Bhatia inquired if Board members were going to be sitting on the interview panel. Attorney Wilkinson responded that the City Attorney's recommendation is to have staff sit on the panel. He indicated there would be problems in doing any of it jointly because of the City's statute regarding Board members being involved with the contracting process. Attorney Wilkinson reiterated that before anything is approved it will be an open Board meeting and the DWP Retirement Board, along with the other two boards will have full opportunity to ask any questions. He emphasized it would be an open and transparent process.

13. Presentation of report of Operational Control Assessment of the Investment Process by Deloitte & Touche LLP presented to the Audit Committee on December 20, 2006

Ms. Bhatia informed the Board that Item 13 had already been presented and discussed at the Audit Committee meeting on December 20, 2006. She added there were good recommendations made in the audit report. President Romero inquired about the process in going forward with the recommendations. Ms. Bhatia responded that the audit was conducted as a result of the DWP Commissioners having identified certain risk areas throughout the Department, one being the pension plan investments. She stated staff has received the recommendations and will be implementing a number of the changes, such as encouraging consistency in reporting from the investment managers and performing due diligence of investment managers by conducting onsite

visits. Ms. Bhatia informed the Retirement Board that the audit report was also presented to the Board of Commissioners at last week's meeting and one of the Commissioners requested a follow up by Deloitte & Touche next year to check if the recommendations had been implemented.

14. Discussion of 2007/08 Budget Items and possible action

President Romero commented that last year Board members addressed their concern regarding being able to review the budget prior to discussion and taking action, in order to have some input in decision making. Mr. Moore requested an explanation behind the numbers in the budget. He indicated he was particularly interested in the salary levels jumping by \$1 million, as far as what is estimated to be spent this year. He stated he was aware that a big chunk of the salaries are for the data processing employees that will be hired. Mr. Moore expressed he was glad to see that the travel and conference amounts have been increased because it is important the Board and staff be educated in different areas as part of their fiduciary responsibility. He requested an explanation for the data processing and interest expense, actuarial services, audit fees, portfolio evaluation services, office equipment, and professional services. Ms. Bhatia informed Mr. Moore that some of the information regarding the expenses would have to be researched and submitted at the next Board meeting.

Mr. Canzano requested an increase in the frequency of the retirement seminars. Ms. Bhatia responded that this would require the hiring of additional staff. Ms. Bhatia informed the Board that DVDs of the seminar had been developed, which can be checked out. She stated staff is exploring the possibility of having a link on the DWP Retirement website where individuals can review the seminar on their desktop. President Romero suggested including the availability of the DVDs in the employee newsletter.

The Board meeting was interrupted by an earthquake drill and reconvened.

Ms. Bhatia explained, as far as the salaries in the proposed budget for 2006/07, most of the increases are as a result of trying to provide funds for vacancies, such as the Chief Investment Officer, Investment Officer II, two Assistant Plan Managers, and IT positions. She stated, with regards to the conferences, seminars and travel, there will probably be a little bit more of an increase because previously it was limited to one conference or travel opportunity a year for staff and a couple for the Board members. However, the actuals have to be updated for this year. Ms. Bhatia stated, as far as the data processing expense, which she would have to check on, the cost stems from the monthly retiree newsletter and staff is also trying to get the active newsletter going on a regular basis. She explained that the actuarial services and auditor's expense is due to the new contract. The portfolio evaluation service is with regard to the investment consultant's fees, and there are funds in office equipment and software, as well as other professional services for the new pension system. Ms. Bhatia explained that the actuals are compared with the proposed budget and the Department is billed based on that proposed budget. At the end of the year staff reconciles with the actual expenditures and the unused funds are submitted back to the Department and a new budget is set up for the next year. She informed the Board she would bring back more details on specific line items. President Romero inquired about the interest expense. Ms. Bhatia explained

that when there are beneficiaries that have not been paid, the Plan requires that the interest expense be added to the amount owed to them, and a number of beneficiaries had been found in previous years.

15. Retirement Plan Manager's Comments

- a) DWP Plan Newsletter for Retirees (December 1, 2006)**
- b) DWP Plan Newsletter for Retirees (January 1, 2007)**
- c) General Items**

President Romero requested Ms. Bhatia keep the Board abreast as to the latest developments with Levi, Ray & Shoup Inc (LRS), a finalist for the integrated pension system.

Ms. Bhatia noted there was a new and revised management letter from the auditors which the Board members received. She stated the letter was discussed at the Audit Committee meeting and is final. She further stated the letter talks about the recommendations, staff's response, and what will be implemented going forward. Mr. Moore inquired if Ms. Bhatia was comfortable with the final letter and recommendations. Ms. Bhatia responded that after further discussion with the auditors she is now comfortable.

Ms. Bhatia stated she previously reported that the Other Post Employment Benefit healthcare assets were successfully transferred and State Street was utilized as a transition manager. Based on PCA's recommendation, 60% of the funds have been put into equity using Merrill Lynch as the equity manager and Wells Capital as the fixed income manager. She reported that this transpired the first week of January. Ms. Bhatia indicated that a post transition report was expected from State Street, which will be reviewed by PCA and then presented to the Board. Mr. Moore inquired how much was transferred. Ms. Bhatia responded a little over \$500 million. Mr. Moore inquired if all of the money that was to be transferred had been. Ms. Bhatia responded in the affirmative. Ms. Bhatia stated that reporting issues were discussed with Mellon as far as keeping track of what belongs to the health care assets and what is retirement. President Romero inquired if Mellon presented any issues. Ms. Bhatia responded that Mellon cooperated and it was determined how best to unitize the funds.

Ms. Bhatia reported that staff met with Financial Services (FS) regarding the activity required from the funds. She stated it is expected that staff will provide them with two fund transfers (Water revenue fund and Power revenue fund) for premiums to be paid to the healthcare service providers. She added that FS will in turn reimburse that amount back.

Ms. Bhatia reported, with regards to the finalists for the pension system, a site visit is planned to see an implemented system from James Evans & Associates (JEA), another finalist for the integrated pension system, next week. She indicated staff was very happy with the demo JEA provided. Ms. Bhatia stated there have been a couple of conference calls with Tier (a finalist), but recently they informed staff they did not want to continue with the process. She stated she received a call from LRS indicating they may still be interested in coming back, but on different terms. However, since they did not indicate

specifics, she would have to see what the firm is proposing in order to go forward. President Romero inquired if the meeting with LRS has transpired. Ms. Bhatia responded that it had not.

Ms. Bhatia reported a meeting is scheduled the following day at the Mayor's Office regarding another update on the Sudan issue and staff will be attending. Also, Commissioner Nahai from the Board of Water and Power Commissioners will be attending in connection with DWP investments. She added that the Plan only has limited investments in Sudan. Mr. Moore inquired if the Council acted on this issue or has the package been transmitted to them yet, with respect to the indemnification. Attorney Wilkinson responded that more will be learned at the meeting being held the following day and would require a Council member to bring it forward, which is not on the City Attorney's end. He stated he would also be attending the meeting. Ms. Bhatia stated, in connection with the Sudan issue, copies of the letter that went out to the managers and companies was submitted to the Board members.

Ms. Bhatia responded that staff has been working on the 1099Rs and Mr. Blunk has been actively involved and has successfully completed the entire reconciliation and they are being printed today.

16. Future agenda items

Attorney Wilkinson reported that Attorney Joe Wyatt is currently speaking to a LACERS offsite on fiduciary duty. He stated he has reviewed the materials and if the Board is interested he feels a presentation would be worth their while. The Board requested an offsite presentation be arranged.

Mr. Moore expressed he was interested in reviewing what statistics staff maintains to monitor activities and performance in terms of backlog and turnaround time for certain types of requests.

President Romero inquired if the Board was going to stop receiving trade receipts and the report at the end of the month. Ms. Bhatia responded that staff was informed they only needed to review the trade reports. However, the managers have not been informed the broker confirmations are no longer necessary. President Romero inquired if Ms. Bhatia agreed that the receipts are beneficial. Ms. Bhatia responded in the affirmative, adding there was an issue regarding the detail and time required to monitor the broker confirmation receipts. She stated that on a general basis staff looks at the trade reports and randomly spot checks some of the confirmations. She added that the auditors indicated it would be fine to just look at the trade reports.

Ms. Bhatia reported an Investment Officer was hired to replace Ms. June Kim and should be starting within a couple of weeks. Mr. Moore inquired about the new employee's background. Ms. Bhatia responded the new Investment Officer is currently with the City Treasurer's Office and has considerable private industry experience. She added the position would be different from Ms. Kim's in that it would be an Investment

Officer II. President Romero recognized Ms. Kim for an outstanding job and suggested a resolution be written on her behalf and mailed to her.

The Board meeting was adjourned at 11:18 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

Irene Colón Gonzalez
Recording Secretary