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

MINUTES – February 7, 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 Colòn Gonzalez	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
John Blair	Deputy City Attorney

President Romero called the meeting to order at 9:34 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. Tom Joyce of Mellon Financial approached the podium. President Romero recognized Mr. Joyce.

Mr. Joyce stated he works with Mr. Michael Ferguson and Mr. Richard Cochran, neither of whom could attend the current Retirement Board meeting. He explained he has overarching responsibilities for what transpires between the Plan and Mellon Financial as well as the Department and Mellon Financial. Mr. Joyce stated it is very important for Mellon Financial to keep close tabs on what goes on. On behalf of Mellon Financial, Mr. Joyce thanked the Board for being able to work with the Plan.

Ms. Bhatia introduced new Staff members, Senior Systems Analyst II Raymond Wong, Senior Clerk Typist Heather Herrera, and Investment Officer II Jeremy Wolfson. President Romero welcomed the new Retirement Office Staff members.

1. **Approval of Board Minutes**
   a) **October 4, 2006, Regular Board Meeting** **1a.1 – 1a.7**
   b) **December 6, 2006, Regular Board Meeting** **1b.1 – 1b.23**
   c) **December 20, 2006, Regular Board Meeting** **1c.1 – 1c.8**

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

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

2. **Overview of the Department of Water and Power's Rules for Travel** **2.1 – 2.2**

Mr. Moore stated he believed five days was a quick turnaround in which to submit an expense statement. He asked if the five-day timeframe was now a Department requirement. Ms. Colón Gonzalez explained the information provided to the Board was taken from the Department's Administrative Manual.

Mr. Canzano requested to receive the Rules for travel in soft form. Ms. Colón Gonzalez agreed to email the travel rules to Mr. Canzano.

3. **Invesco Senior Management shift** **3.1 – 3.3**

Mr. Moore moved the above items 2 and 3 be received and filed. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

4. **Presentations – High Yield** **4.1**
   a) **Loomis**

Mr. Bruder, Vice President/Client Portfolio Manager of Loomis approached the Board table. President Romero recognized the representative from Loomis.

Mr. Bruder provided a review of the Loomis High Yield fund.

Mr. Canzano requested Mr. Bruder elaborate on the second quarter of 2006. Mr. Bruder responded there was a very strong performance during the first quarter of 2006 with rates rising during the second quarter of 2006 and credit spreads in the high yield market moving out. He added the non-dollar emerging market securities were affected by the flight to quality in the second quarter of 2006.

President Romero inquired as to the Loomis limit on cash. Mr. Bruder replied there is a 10% portfolio limit. He stated the cash is invested and receiving a 5% yield. Mr. Bruder added the cash is held because the market is very tight and Loomis wants to keep some liquidity.

Mr. Moore stated Loomis appears to be overweighting in the 10-year plus, higher quality maturities. He inquired as to the risk measures in place to evaluate this type of strategy. Mr. Bruder stated Loomis considers duration by quality sector. He explained Loomis has probably a longer duration by the lower quality names in the portfolio. Mr. Bruder stated the higher quality the more interest rate risk, while the lower quality has more credit risk. He noted as a risk measure tracking error is reviewed daily. Mr. Bruder commented Loomis is mainly attempting to maximize the value of returns given the guidelines.

Mr. Moore requested future presentation material include some of the measures used to evaluate the portfolio risk in terms of volatility.

Mr. Bruder left the Board meeting.

b) Wells Capital

Mr. Stephen Scharre, Senior Relationship Manager; Ms. Sandra Willen, Managing Director and Mr. Niklas Nordenfelt Managing Director/Investment Strategist of Wells Capital approached the Board table. President Romero recognized the representatives of Wells Capital.

The representatives of Wells Capital provided a review of their High Yield fund. Mr. Moore requested information on the charts found on page 11 and 12 of the Wells Capital presentation material. Mr. Nordenfelt explained Wells Capital manages approximately $3.5 billion of assets. He stated the assets are managed in three pools: high yield, structured products and leverage loans.

Mr. Scharre, Ms. Willen and Mr. Nordenfelt returned to the audience.

5. Discussion of Proxy guidelines by Glass Lewis – changes and recommendations and possible action **5.1 – 5.16**

Ms. Jackie Caldwell, Vice President and Mr. Robert McCormick, Vice President of Glass Lewis & Co. approached the Board table. President Romero recognized the representatives of Glass Lewis.

Mr. McCormick presented the Board with an overview of the Glass Lewis Proxy guideline recommendations.

Mr. Moore, referring to page 5.6 of the Board package, inquired as to why Glass Lewis doubts the Plan would adopt the recommendation of voting against the ratification of an independent auditor. Mr. McCormick explained the recommendation was fairly aggressive and the majority of the Plan's provisions are mainstream.

Mr. Canzano requested Mr. McCormick provide additional information on the majority vote to elect directors issue. Mr. McCormick cited as an example, in 2004 Mr. Michael Eisner was re-elected to the Disney corporate board of directors after having 43% of shareholders withhold their vote to elect him. He commented even if 99% of votes were withheld Mr. Eisner still would have been reelected because with plurality voting, a candidate need only one more vote than any other candidate to win a seat. He stated plurality voting is unique to the United States and Canada. Mr. McCormick added the remainder of the world utilizes majority voting and has not had any difficulties with electing directors. He stated the concerns raised about majority voting are somewhat hollow because there have not been issues in any of the countries utilizing that type of voting system.

In response to a question from Mr. Canzano, Mr. McCormick indicated the reduction in the number of boards, directors are serving on is partially due to Sarbanes-Oxley concerns. Mr. McCormick noted other reasons as concern among directors for their personal liability and the increased responsibility of boards.

Mr. Moore inquired how demanding are the standards for the various exchanges. Mr. McCormick responded the standards have become more demanding requiring 50% of the board to be independent; limiting the amount of outside work a board member can do to a specific dollar amount. He offered to provide the Board with a detailed account of the provisions from the exchanges.

Mr. Moore commented he was concerned the standards might not be as demanding as appropriate in order to avoid "rocking the boat". Mr. McCormick replied the standards have relatively robust provisions.

Mr. Moore inquired if the proxy recommendations should be referred to the Governance Committee. Ms. Bhatia stated the proxy recommendations were referred to the Board in the interest of time as the proxy-voting season is approaching.

Mr. Moore moved to adopt the Proxy guideline developed by Glass Lewis. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

Ms. Caldwell and Mr. McCormick left the Board meeting.

07-45 6. Discussion of resolution authorizing the renewal of Attorney Michael Wilkinson's Membership in the National Association of Public Pension Attorneys (NAPPA) and possible action 6.1 – 6.4

Mr. Canzano moved approval of Resolution 07-45. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

07-46 7. Discussion of approval of July 1, 2007, Annual Cost of Living Adjustment (COLA) for Eligible Recipients of Monthly Benefits from the Water and Power Employees' Retirement Plan (WPERP) and possible action **7.1 – 7.10**

Mr. Canzano moved approval of Resolution 07-46. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nayes: None

8. PCA's report on the transition of Other Post Retirement Benefits assets **8.1 – 8.4**

Mr. Neil Rue of PCA approached the Board table. President Romero recognized Mr. Rue.

Mr. Rue provided a brief summary on the transition of the Other Post Employment Benefits (OPEB) assets.

Mr. Rue returned to the audience.

9. Discussion of next steps for integrated pension system and possible action **9.1 – 9.2**

Ms. Bhatia stated at the December 6, 2006 Regular Board meeting, Staff was authorized to conduct due-diligence efforts to determine a recommendation of which vendor to proceed with for the integrated pension system. She noted the due diligence was conducted with James Evans & Associates Pensions Solutions (JEA). Ms. Bhatia explained JEA provided a demonstration which Staff from the Retirement Plan office, Health Plans and ITS attended. She stated Staff also conducted an on site visit to a JEA client where the proposed system has been implemented. Ms. Bhatia commented Staff believes the product being offered would work for the Retirement Plan office, noting the client appeared to be happy with the system and JEA has a competent staff. She added Staff has rechecked the references provided by JEA. Ms. Bhatia requested the Board authorize Staff proceed with the contract with JEA.

Mr. Canzano inquired if the proposed system allows Plan members to access their information via the internet. Ms. Bhatia responded in the affirmative noting the implementation will be phased and the internet access would probably be installed during the last phase.

Mr. Moore inquired as to the differences in incremental cost, capabilities and schedule between Levi, Ray & Shoup Inc. (LRS) and JEA in regards to implementing their respective integrated pension systems. Ms. Carranceja responded JEA's cost is $1,059,137.00 and LRS's charge was approximately $1.2 million. She noted JEA has provided an 18-month time line for implementing the core product and 4 additional months for the web application. Ms. Carranceja stated there would be a 3-month wait period between the phase of implementing the core product and the web application.

President Romero inquired as to the reason for the 3-month time lag. Ms. Carranceja stated Staff would research the 3-month time delay further during future communications with JEA. Ms. Bhatia stated during the on-site due diligence the web access was limited to a separate file where it did not impact the area where the regular files are maintained. She stated it is possible there needs to be some development and JEA would start working on the web application after the other work is done. Ms. Bhatia commented Staff is not exactly sure of the reason for the break in time, however, it was noticed while reviewing the JEA proposal.

Mr. Moore inquired if JEA and LRS are similar in terms of capabilities. Ms. Bhatia responded in the affirmative.

Mr. Moore inquired if JEA decided to abandon the American market would Staff have access to the code for purposes of maintaining the system. Ms. Bhatia stated the fact that JEA is a Canadian firm has been discussed with the company, however, she does not believe any of the firms provide the clients with the code. She stated it was discussed to keep the code in escrow and that JEA must complete their commitment before the code can be released.

Ms. Bhatia added JEA appears willing to comply with the insurance requirements and the performance bond provisions. Mr. Moore stated he believes it is different than the risk the Plan is taking by proceeding with a company that has no other United States clients. He stated he believes as part of the escrow provision it can be stipulated "in the event JEA abandons the American market the code shall become the property of and subject to maintenance and change of [the City of Los Angeles Department of Water and Power]." Mr. Moore commented he believes this type of provision would be a reasonable offer for JEA upon entering the American market. He added it provides some protection to the Plan. Ms. Bhatia stated Staff would make sure about this protection. Ms. Carranceja stated she believes one of the purposes for the escrow is to provide the code in the event JEA is no longer in business.

Mr. Moore moved approval of the award of a contract to JEA for the implementation of an integrated pension system and to authorize the Retirement Plan Manager to proceed with negotiations with JEA to finalize the terms and conditions of the contract, including a provision for obtaining the code. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nayes: None

10. Discussion of draft RFP for actuarial services and possible action **10.1 – 10.26**

President Romero stated he has a concern with the potential conflict of interest issues with any professional service. He stated he knows the current actuary has provided actuarial services to the Plan sponsor. President Romero commented he has been told of the importance of having provisions to eliminate potential conflicts of interest. He requested PCA address the validity of his concern regarding an actuary servicing both the Plan and the Plan sponsor.

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

Mr. Rue stated he believes in terms of the RFP process at a minimum there should be disclosure if the firm has business practices with the Plan sponsor.

President Romero stated he would prefer, before any work is done for the Department by the Plan's actuary, the actuary come before the Board explaining the nature and scope of the work to be done and receive approval, by the Board, on a case-by-case basis. Another option presented by President Romero was to eliminate the possibility of the Plan's actuary working for the Plan sponsor. He stated he believes there is too much room open for potential conflicts of interest and noted he would feel comfortable if either one of his previous suggestions were added. Ms. Bhatia stated she understands President Romero's comments regarding the potential for conflicts of interest and disclosure. She inquired if he was proposing to put either of his suggestions in the RFP. President Romero responded he wanted to make the actuary aware that by working for the Plan there is the potential of not being able to work for the Department. He stated whether it is noted in the RFP, the interview or the contract he wanted the disclosure to be made to the successful bidder. President Romero noted perhaps some firms would not want to bid, however, he would like to be forthcoming with the provision.

Mr. Rue stated another option would be to require some form of recusal if the Plan's actuary was also working for the Department. Ms. Bhatia stated she understands the need for disclosure of the potential conflict of interest; however, she is concerned with placing the provision in the RFP. President Romero stated it does not have to be in the RFP, however, he wants to make sure the provision is conveyed. Ms. Bhatia stated there are not very many actuaries and she would not want to limit the pool of candidates by placing the provision in the RFP. She noted the Plan sponsor is also in search of an actuary.

Mr. Moore inquired if the Department's RFP for actuarial services is regarding health care. Ms. Bhatia responded the Department's actuarial services RFP is with regard to the health fund as well as other issues. She stated the Plan's actuarial services RFP specifically deals with Plan amendments adopted and valuations of the Retirement, Disability and Death benefit funds. Ms. Bhatia noted although the Plan and the Department have the same actuary, the Plan's contract does not permit them to do studies for the Department. President Romero stated if Staff does not feel it is necessary to put the provision in the RFP that is fine, however, he believes it needs to be put in the contract. He indicated he believes the Plan must maintain independence from the Plan sponsor. Mr. Moore stated President Romero's points were very legitimate and he believes the Board should be very mindful of the issues presented by President Romero. Mr. Canzano reminded the Board that there was a situation when work had been done and the Board was not notified in advance.

In response to statements made by Mr. Moore, Mr. Rue stated the Plan has an experience study which will be presented at the February 21, 2007 Regular Board meeting.

Mr. Moore inquired if it is appropriate to have the Audit Committee involved in the engagement of the actuary. President Romero inquired of Mr. Rue if typically the matter would go before the Audit Committee or the Governance Committee. Mr. Rue responded typically the matter has been a Staff function handled by the Executive Director or CEO of other midsize plans.

Mr. Moore stated the reason for the Audit Committee is because the Board desires some comfort that the financing of the Retirement Plan is in good order and regularly accepted accounting practices are being followed. He stated while it is not something that has to be decided on at the moment, he believes it should be considered having the Audit Committee involved in the process.

Ms. Bhatia clarified the health of the various funds are reported in the valuation. She stated it could be added in the RFP that the actuary may need to discuss in conjunction with the auditors and the Audit Committee the scope of their work. Ms. Bhatia pointed out in the past the annual valuations have been presented to the full Board. She inquired if this should be changed to have it presented along with the audit reports to the Audit Committee. It was agreed upon the actuary would be in attendance when the audit report was presented.

President Romero inquired as to the evaluation process once the RFP responses are received. Ms. Bhatia stated the criteria had been provided in the draft RFP found on page 10.3 of the Board package. She noted Staff was going to evaluate the RFP's, however, she indicated the Board members were welcome to be included in the selection process. Ms. Bhatia stated in the past Staff has made a recommendation of a short list of the candidates who were then presented to the Board. She offered to give the Board an update of the responses received and allow them to determine at that time if they preferred to interview the short list of candidates or the entire candidate pool. Mr. Canzano requested the list of candidates be brought before the Audit Committee. He stated the Audit Committee would want Staff recommendations and then the Audit Committee would recommend a short list of candidates to the full Board for consideration.

11. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (February 1, 2007) **11a.1**

b) General Items

Ms. Bhatia stated interviews have been completed for the Programmer Analysts that will be part of the team for the computerization project. She stated the new Staff should be starting during the beginning of March 2007.

Ms. Bhatia noted Staff has finalized the agreements with the hedge fund managers that were selected. She stated the agreements were reviewed by outside legal counsel and then completed with Aetos and PAAMCO. Ms. Bhatia stated both managers have been funded, so the Plan is fully invested in the hedge funds.

Ms. Bhatia stated the Prudential Prissa allocation has been funded. She stated the J.P. Morgan investment management agreement is currently being reviewed by outside counsel; once funded she stated she would notify the Board.

Mr. Moore inquired which real estate manager had the Que. Ms. Bhatia indicated it was the Prudential Prissa. She stated Prudential contacted Staff about an opportunity that was opening up and the Plan was able to participate.

President Romero thanked Staff for the continued hard work. He also thanked Ms. Bhatia for bringing the new employees of the Retirement Plan Office before the Board.

Mr. Canzano inquired if there is an employee of the month program in the Retirement Plan Office. Ms. Bhatia stated there is currently no program, however, she plans to introduce one in the future. She stated she believed it would be a good morale booster.

12. Future agenda items

There were no future agenda items.

13. CLOSED SESSION - CONFERENCE WITH LEGAL COUNSEL --EXISTING LITIGATION (Subdivision (a) of Government Code Section 54956.9) Name of Case: "Gary L. Sornborger" vs. "DWP Retirement Plan Employee Retirement Plan"

Item 13 was a closed session item and the audience was requested to leave.

The Board meeting was adjourned at 10:30 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLÓN GONZALEZ

Recording Secretary