

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

MINUTES – March 21, 2007

Present:

Javier Romero	President
Eugene Canzano	Board Member
Forescee Hogan-Rowles	Commissioner
Ron Vazquez	Chief Financial Officer
Cindy Coffin	Board Member

Absent:

Ronald Deaton	General Manager
Michael Moore	Retiree Member

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
Paul Mouchakka	Pension Consulting Alliance
Pam Alsterlind	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 8:38 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 of January 17, 2007**
- 2. Termination from Monthly Rolls as of March 2007:
Retirement Resolution for March 2007
Resolution terminating Virginia M. Umland from the March 2007 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, Vazquez, and Canzano
Nays: None

- 3. Report of Payment Authorizations as of February 2007**
- 4. Notice of Deaths for February 2007**
- 5. Report on Status of Insurance as of February 28, 2007**
- 6. Summary Investment Returns as of February 28, 2007**
 - a) Market Value of Investment by Fund and Month as of February 28, 2007**
 - b) Market Value of the Retirement, Death & Disability Funds as of February 28, 2007**
 - c) Investment Returns as of February 28, 2007**
- 7. Announcement of personnel changes at Invesco and PCA's report**

Mr. Canzano moved the above items 3 through 7 be received and filed. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

8. Discussion of Investment Manager's non-compliance with Investment Guidelines and possible action

Ms. Bhatia indicated she briefly informed the Retirement Board members about the investment manager's non-compliance with investment guidelines at the last Board meeting under Plan Manager's comments. She explained that the investment guidelines for fixed income securities states that Rule 144a securities without registration rights cannot be purchased in the core fixed income mandate. She stated they were erroneously purchased by ING and the firm informed staff. Ms. Bhatia noted that ING took steps to correct the situation and representatives were present at the meeting to discuss it further. She stated staff was informed ING did not have a way to determine that they were purchasing Rule 144a securities without registration rights in that portfolio. She noted ING has corrected the situation since and removed the securities from the portfolio.

Messrs. James Kauffman, Senior Vice President and Thomas Neukranz, Senior Vice President, of ING Investment Management approached the Board table. President Romero recognized the ING representatives.

President Romero noted that according to their letter, ING receives their information from Bloomberg's compliance system and the securities either come in as registered or blank. He stated if it comes in as registered it is a "no brainer", but if it comes in as a blank he inquired if the firm proceeds or asks the question, "Why is it blank?" Mr.

Kauffman responded that Bloomberg has approximately 5,000 data fields and there are two dealing with registration. He explained one of them is called DTC registration and the other was SEC registration, and it was the SEC registration that is being discussed. Mr. Kauffman explained that their system inadvertently grabbed the wrong field and looked at DTC registration. Since then the firm found that there is a data element that specifically tells whether it is SEC registered or not. He indicated ING worked with Bloomberg in correcting the situation so that now all of their compliance maps to the correct SEC registration code. Mr. Kauffman added that the securities were very liquid and were sold. He indicated ING staff was alerted as soon as the problem was detected. Mr. Kauffman stated in the firm's annual compliance they detected the problem, removed the offending securities and replaced them with registered securities, and they do not believe this problem will ever occur again.

Mr. Neukranz informed the Board that as soon as the problem was detected he came to DWP and met with staff and discussed the situation on a conference call with Mr. Kauffman. He stated they went through, in detail, what happened and why and how ING was going to correct the problem and have done so. Mr. Neukranz stated the booklet he provided the Board goes through the entire process. He then briefly went through the subject matter of the book describing the process. He stated the letter from ING written to Ms. Bhatia and staff is between pages 19 and 20 of the booklet and describes what they found, how they found it, and how they rectified the situation. Mr. Neukranz indicated, at that snapshot in time, ING had a number of offending securities and performed an analysis on those and the profit loss detail from it is located on page 20 of the booklet. He stated the firm liquidated the securities and it was a net profit to the Plan of \$2.9 million. Mr. Neukranz indicated the firm then went back after lots of consultation with staff on questions like, "What about way back to inception and how many of these trades have you had?" He stated ING identified that and went through all the calculations and the details are included in the booklet from pages 34 through 55, and reflects every single trade and the profit and loss. He reported that in going through the trades the net to the Plan is a positive \$5.2 million. Mr. Vazquez referred to page 20 of the booklet and noted it states there was a \$2.9 million gain and inquired how this relates to the \$5.2 million net to the Plan. Mr. Neukranz responded that when ING brought the information to the Board that was a snapshot in time on December 31, 2006, and as of that day, there were a number of offending securities. He again explained that the liquidation of those securities resulted in \$2.9 million. He stated when ING staff performed a historical calculation since inception, the total of all of these offending trades is the \$5.2 million. Therefore, the \$5.2 million includes the \$2.9 million.

President Romero commented that clearly ING has taken action to correct the problem and his only question is how the managers are being monitored. He noted there was the same issue with another manager and staff caught the error. Ms. Bhatia clarified that the problem is that the Mellon workbench does not identify 144a securities without registration rights and in the other case it was also the manager that informed staff of the problem. She informed the Board that staff implemented a quarterly compliance questionnaire which is sent to the managers in order to address the issue that previously occurred. She stated the managers are expected to answer all the questions, including the question as to whether they have 144a securities with registration rights and that they are complying with the guidelines. Unfortunately, ING, at the time, believed they held the correct securities and not the ones without the registration rights

and attested to this in the last quarterly compliance questionnaire. Since then, ING discovered this was not the case and that they had incorrectly certified this on the questionnaire. Ms. Bhatia confirmed that ING did bring the problem to staff's attention, and since then there have been ongoing conference calls as well as follow up on the steps to be taken. President Romero inquired if this was something a custodian could flag. Ms. Bhatia responded the custodian does identify all Rule 144a securities. However, they do not identify the ones without registration rights. President Romero asked Rich Cochran of Mellon if there was something in place to identify the Rule 144a securities without registration rights. Mr. Cochran responded there is a system that identifies if the securities have registration or not and it does identify 144a securities. President Romero stated that there should be a way to know right off the bat without having to wait for the next quarter. Mr. Cochran stated this was correct.

The ING representatives left the Board meeting.

9. Discussion of real estate investment opportunity and update by PCA

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

Commissioner Hogan-Rowles joined the Board meeting.

Ms. Alsterlind reminded the Board that last year they committed to two core open-ended funds. The first was Prudential PRISA I for \$50 million, documentation was completed, capital was called for \$10 million at the end of December, and they are calling for the remaining \$40 million this month. She added that particular fund is now working for the Plan. Ms. Alsterlind reported that another \$50 million was committed to JP Morgan's strategic property fund and it is her understanding that they are still working on legal documents with LADWP. She stated it is hoped they will get those completed in the next couple of weeks and they will call capital for the first time in the next four to six months. Consequently, the Board will see money working in that fund in 2007 as well. Ms. Alsterlind reported that PRISA was ahead of schedule and the second fund is a little behind schedule. She inquired if Mr. Mouchakka spoke with JP Morgan and if the firm was optimistic that they will get through their issues. Mr. Mouchakka stated he spoke with the portfolio manager this week and she indicated that there were two main outstanding issues. One was with respect to compliance reporting and the other had to do with insurance. He stated he did not know the exact specific items under those sort of headings, but they felt optimistic that something would be resolved by the end of the month. President Romero inquired if Ms. Bhatia knew what the issues were. Ms. Bhatia indicated the documents were being reviewed by outside counsel and staff also submitted them to the City Attorney's Office. Ms. Bhatia added that any investment opportunities with the fund were expected at the end of March and it was expected that documentation would be completed before that. She stated she was not aware of any issues regarding insurance. President Romero suggested a meeting with Mr. Avery Neaman. Ms. Bhatia responded that Mr. Neaman was on board and there should not be any issues because the terms are different for the real estate contracts and she had not been informed that insurance was an issue. She stated she was aware that the legal documents were taking some time to be reviewed, and, Alan Manning, from the City Attorney's Office was following up with the outside counsel, but she would look into it

again.

Ms. Alsterlind stated that after reviewing a few core open-ended funds value add would have to be looked at. She reminded the Board that the current policy has an allocation to core of 60% to 90% when fully invested, and value add of 10% to 40%, all within the U.S. She stated PCA has been combing through opportunities that come through and determining which ones would fit within the real estate policy. Ms. Alsterlind also reminded the Board, that as she stated a year or so ago with the investment plan, these would mostly take the form of closed-end funds. She explained that closed end funds have a set term of 7 to 10 years and the capital is drawn over time. She explained an opportunity has opened up with Prudential with a fund called PRISA II, which is a value added fund, and they have been closed for over three years. She pointed out this was a unique opportunity and its value add is with a manager currently working with the DWP Retirement Plan. Ms. Alsterlind indicated that Mr. Mouchakka visited with them over the last two months in New Jersey and could speak a little more about the fund.

Mr. Mouchakka explained to the Board that PRISA II is slightly different than PRISA I in that there are no leverage limitations. He explained that in PRISA I there is a hard cap of 30% leverage that the fund could employ. Secondly, there is no real property type limitations that PRISA II works towards. He stated they have an idea of where they want to focus and what bets they want to make; however, they do not really have a hard cap in terms of where they believe office or retail should be. Mr. Mouchakka pointed out a third difference between the two, which is that PRISA I has a hard cap of 15% of the fund which can be in development or value added activities, whereas in PRISA II there is no cap and they can go as high as they want. However, they tend to manage at least around 60% of the fund in core type of properties. As a result they mitigate some of the risk by not taking 100% development type of activities. Mr. Mouchakka stated the fund is a little bit different and is an open-ended fund, but it is closed for entry two to three years at a time. He indicated the fund opened up in January of 2007, is expected to close by June 30, and will reopen two to three years down the road. He added that redemptions could be done on a quarterly basis. Mr. Mouchakka explained that the fund is open ended from the redemption point of view in that one can go into this value added fund and pull out later on in the future.

Mr. Mouchakka reported that PCA looked at three other main comparable open-ended value added type of funds. One is sponsored by JP Morgan, which is the special situations fund, another is sponsored by Principle, which is the enhanced property fund, and the third is sponsored by REIT, which is REIT America III. He provided the board with a brief explanation of their performances.

Ms. Alsterlind informed the Board that PCA completed a desk review as part of the process and would like to complete their due diligence. She indicated they expect to be finished in the next couple of weeks and with interest from the Board would bring the group to a Board meeting to consider an investment in the fund. Ms. Alsterlind stated they are looking to raise \$2 billion and there are indications they already have commitments up to \$3 billion. She informed the Board that PCA would be recommending \$20 million to \$25 million net be put into the fund.

President Romero inquired how long PCA's due diligence would take. Ms. Alsterlind

responded that since it had already begun, they should be finished within the next week or two. She stated she was looking to have the group attend the April 18 Board meeting. She added that if the Board decided to invest in the fund, since the paperwork is virtually identical to PRISA, there would not be an issue of getting the paperwork completed by the June 30 closing date.

Commissioner Hogan-Rowles noted that this was a global fund and she wanted to make sure the Board does not start investing in anything that does business in Darfur. Mr. Mouchakka responded that this particular fund invests exclusively in the United States. Ms. Alsterlind added that PCA's policy for real estate with the pension Plan is only in the U.S. and they are not introducing any international investments yet.

Mr. Vazquez noted that the PCA write up states that their long term targeted return is 8% to 10% net of fees. He inquired where the 16% to 20% the PCA representatives mentioned have been historically. Mr. Mouchakka responded that historically, if you look on a 10-year basis, the return is still quite strong at roughly 15.5%. However, in the last 4 to 5 years, within the real estate market, the returns have definitely been above their historical norm and the amount of capital that has been pouring into the real estate market has caused returns to be typically above where you would expect them to be.

Mr. Vazquez inquired about the fee structure for the fund. Mr. Mouchakka responded that the fee structure has a flat asset management fee that depends on how much is committed to the fund. He stated the asset management fees typically range somewhere between 90 and 120 basis points. He added that there is also a performance based fee that is driven by the operating cash flow that each of the properties throws off, and if it reaches a certain hurdle on operating cash flow then you pay another fee. Mr. Mouchakka indicated there is a cap at 140 basis points; consequently, the fee drag can be no more than that. He stated at the range of \$20 million to \$25 million one could probably expect to pay somewhere between 110 and 125 basis points. Mr. Vazquez inquired why PCA was recommending \$25 million be invested in the fund. Ms. Alsterlind responded that there is a smaller allocation to the value add and PCA was looking at that number relative to what Prudential would have with you in its entirety. She stated there was no scientific method other than we would not want you to commit \$50 million, so then Prudential would have \$100 million from you and it is better to go with the smaller allocation because you are in a higher risk area.

Mr. Canzano inquired about the funding timing. Mr. Mouchakka responded that because the fund opens and closes on an entry point of view, they have committed to one large deal in December and they expect to call some capital right away. Once it closes on June 30 you would have a portion of your capital called, but thereafter they expect a two to three year investment period. Consequently, it may take as long as two to three years to be fully invested in PRISA II. Mr. Mouchakka stated, from that point of view, it is similar to a closed-end fund which would have a three to four year investment period where you would commit to a closed-end fund for a certain amount and it would take three to four years before they would call all the capital. He added that you can always redeem at any point in time with PRISA II versus a closed-end fund.

Ms. Alsterlind and Mr. Mouchakka left the Board table.

10. Discussion of Policy Benchmark and new Benchmarks for the Asset Classes of Alternative Investments and Real Estate

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

Ms. Bernstein commented that at the last Board meeting there was a discussion regarding a few policy suggestions regarding the benchmarks and targets and the Retirement Office staff prepared the formal resolutions. She briefly summarized PCA's memo, stating the first recommendation is to use the Private Equity Performance Index (PEPI) as a short-term measure and include it in the overall policy index for private equity. Ms. Bernstein indicated PCA would be coming back to the Board with a timing recommendation on how much to include, since private equity will fund and get up to full funding over a period of years. She noted it started on January 1, 2007, and the 1% would be increased up until the 4 years. She indicated that in the attachment of the official policy she underlined the formal language that is included.

Ms. Bernstein stated the second recommendation was to amend the real estate investment policy by using the NCRIF as the policy benchmark. She stated in that case it would be brought up to a full 4% allocation over three years, but there is no set timing about when commitments or investments will be made. Ms. Bernstein informed the Board that PCA is recommending putting the NCRIF at 2%, a year later add another 1%, and then a following 1% to reach the full 4% over three years. She explained that if things change in real estate or private equity and it goes much faster or slower, the Board can always amend the timing if they feel it will significantly affect the policy.

Ms. Bernstein stated the third recommendation was regarding the hedge fund of funds and since they funded in February it would just be repeating what was discussed last week. She noted a correction should be made from last week and that it should state T-bills plus 300 basis points benchmark be adopted beginning March 1, 2007, as a full allocation of 1%.

President Romero inquired if PCA was going to provide the PEPI to Mellon, staff, or how exactly would it work. Ms. Bernstein responded the index would be provided to staff and if Mellon can accept it in some way PCA would provide it to them as well. President Romero asked Ms. Bhatia if she understood how the index would be tracked. Ms. Bhatia responded that staff will be relying on PCA to provide the information on that particular index. She stated the details of access to the site are included in the memo and it was discussed at the last meeting. Ms. Bhatia indicated that Mellon does not subscribe to the site and staff checked into the subscription costs which are \$1,500 per month for the one index. She stated this was not cost efficient and staff would have to rely on PCA to provide the information. President Romero inquired if the previous benchmark was the Russell 3000. Ms. Bhatia clarified that the long-term objective was the Russell 3000 plus the 300 basis points. President Romero inquired if staff would have the capability to keep track of that benchmark. Ms. Bernstein responded in the affirmative, but the question would be which one to put in the overall policy benchmark. She stated, as previously mentioned, there are problems with both and there is no

perfect easy index to track private equity.

Commissioner Hogan-Rowles asked what would happen if staff is relying on PCA to give them the index and PCA's contract ends at a point in time, and we are invested for a longer period of time. Ms. Bhatia responded that this was one of the concerns. Ms. Bhatia asked Ms. Bernstein about the Cambridge Private Equity index that is currently available through Mellon Custodian Bank. Ms. Bernstein responded that PCA is comfortable with the Cambridge index as a substitute for the PEPI and if Mellon has that index available it would be a much better solution for the Plan and consistency within the custodian so that there is less movement in terms of combining information from different places. Mr. Cochran (Mellon) stated he would have to confirm if Mellon offered Cambridge, but he thinks that they do. Ms. Bhatia indicated that Mr. Jeremy Wolfson (WPERP Investment Officer) checked with Mellon on this. Ms. Bernstein informed the Board that Cambridge and PEPI track within a few percentage points of each other in terms of performance.

Mr. Wolfson approached the podium. President Romero recognized Mr. Wolfson. Mr. Wolfson confirmed that he spoke with Mr. Brian Hock from Mellon and the firm does provide the Cambridge index. Mr. Wolfson returned to the audience. Ms. Bhatia stated that based on this discussion, staff can make the necessary adjustments to the resolutions and bring it back to the Board.

11. Discussion of asset allocation policy and new benchmark for the Death and Disability funds and possible action

Ms. Bernstein explained that Item 11 was just a follow up to staff bringing back the official resolution from last week's discussion of the Death and Disability Benefit Plans to alter the target policy benchmark and include an allocation to cash. She added that the memo states the Death Benefits Fund would include a 4% allocation to cash and the Disability Fund requires a 5% allocation using the benchmark as Citigroup T-Bills for both Plans, which is the same benchmark used for cash in the Retirement Plan.

Mr. Vazquez moved approval of Resolution 07-58 and 07-59. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Ms. Bernstein returned to the audience.

12. Discussion of Staff recommendations concerning the contract with James Evans and Associates (JEA) and possible action

Ms. Bhatia pointed out that she mentioned staff recommendations regarding JEA in her comments at the last Board meeting. She indicated staff has made great progress with the contract negotiations with JEA, and under Ms. Carranceja's oversight and the work of the systems groups, all of the pending provisions on the contact have been ironed out. She added the only item remaining is the escrow provision. Ms. Bhatia explained that the item presented concerns an estimate of \$25,000, which was in the RFI

response from JEA as a separate line item and approving this item does not change the fixed fee. She stated the \$25,000 was for out-of-pocket expenses that the firm had not included as part of their fee proposal. Ms. Bhatia informed the Board that staff looked into it and considers the amount reasonable and recommends approval of the out-of-pocket expenses in connection with JEA's contract. Mr. Vazquez inquired when the contract was expected to be finalized. Ms. Bhatia responded that, except for the escrow portion, the contract is ready to be signed. She stated it is hoped the contract would be signed this week and the firm's representatives are scheduled to come in next week. She further stated that since the escrow agreement is a three party agreement staff wants to make sure the escrow agreement is signed.

Mr. Vazquez moved approval of resolution 07-60. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Nays: None

13. Discussion of five year experience study presented by The Segal Company and possible action

Attorney Wilkinson asked the Board if they had all received an updated copy of his memo replacing the one included in the Board agenda package where question 1 has been changed. Commissioner Hogan-Rowles inquired what Attorney Wilkinson's memo refers to. Attorney Wilkinson responded the memo speaks to the issue of "meet and confer". He informed the Board that Senior Assistant Attorney Cecil Marr from the Employee's Relation Section of the DWP legal staff was present to answer any questions. Attorney Wilkinson stated the other part of the memo explains what the procedure would be and the two different ways for the Board to adopt the changes recommended by the actuaries: 1) Stay with the 1983 mortality tables currently in the Plan document which would not require a change, but rather an adjustment to the offset as described by the actuary; 2) or use the 1994 tables, which would require an amendment to the Plan.

Ms. Bhatia provided the Board with a summary of events regarding the issues. She reported at the February 21 Board meeting the Segal Company presented a five-year actuarial experience study along with correspondence concerning the assumptions that go into the calculation of member's retirement allowances. She stated the experience study is in accordance with the contract with The Segal Company. However, the objective is to better align the future actuarial evaluations to more realistic assumptions, and those assumptions are obtained by reviewing the previous valuations. She reported, at that time, the Board deferred action on the recommendations of The Segal Company and asked for additional information. One of the questions that came up was whether the impact of the changes on the retirement allowance related to a "meet and confer" process. Ms. Bhatia stated staff researched past practice and obtained additional information from the actuary and provided a memo detailing the three different proposals for the Board's information. She informed the Board that all the information was on page 13.3 of the agenda package for their consideration on how best to proceed.

Ms. Bhatia reported that, in the past, the mortality tables used for the actuarial valuations, which determines the funding, have always been the same as those that have been used for the calculations of the Retirement benefits. She explained that in 1991, the mortality tables were changed through the Plan amendment process only because the Plan provides a certain procedure for updating the tables. Updating the tables to a new set of tables requires going through the Board of Water and Power Commissioners and the Plan amendment process. Ms. Bhatia reported that in 1991, authority was delegated by the Board of Water and Power Commissioners to the Retirement Board to implement a change in the tables by implementing a “set back”, which is an adjustment to the mortalities of members. She stated, as far as the actions, the Board can divide out the recommendations from the actuary into two parts. One is the valuation portion which refers to the experience study for purposes of determining the funding from the Department. The mortality tables for the member calculations are the second part of the recommendations and those are detailed in the report from The Segal Company.

Ms. Bhatia pointed out to the Board that one of the proposals is to adopt the mortality tables and includes recommendations for purposes of the valuation portion of the report. The other proposal is to consider the proposals in connection with the assumptions associated with the retirement allowances. Under Proposal 1, currently the 1983 tables are used, with a set back of one year. The proposal from the actuary was to change the use of this table to the 1994 mortality table. The additional recommendation made by the actuary made is to change the weighting of the population to reflect the current mix, which is 75% males and 25% females. Ms. Bhatia indicated that the impact on retirement allowances was outlined in the agenda package and could be discussed. The second recommendation is to use the current tables, but with a change in the membership weighting for 75% males and 25% females with a set back of 2 years. She explained that this particular proposal can actually be adopted by the Retirement Board without going through the process of the Plan amendment as a result of delegated authority obtained in 1991. The third option is to keep the current table with no adjustments. She explained that the impact of this is that over time there will be additional visible Plan costs. Ms. Bhatia informed the Board that all of the information was included in the Board package and she would be happy to go into any particular area in more detail. She noted the impact of the three proposals was outlined on page 13.8 of the agenda package. She expounded on the various options for the member and the beneficiary, stating that under the current assumptions, Proposal 1 is the updating to the 1994 tables with the 75%/25% mix, Proposal 2 is the 1983 tables (2 year set back) with 75%/25% mix, and the third is the 1994 table keeping the current mix of 50%/50%. Attorney Wilkinson commented this was not a change in the retirement formula, but an adjustment that the actuary is recommending for optional benefits of someone in lieu of taking their regular retirement. He added that the information is a result based on the actuarial experience reported by the actuary due to people living longer than predicted. Commissioner Hogan-Rowles inquired if the proposal would decrease the amount of money the retiree would get monthly. Attorney Wilkinson responded in the affirmative, adding that, otherwise, if there were not an adjustment made there would be a cost to the Plan. Ms. Bhatia reiterated there are two different actions. One concerns the valuation of the Plan and the other concerns the calculation of retirement allowances based on the actuarial report. President Romero stated he was not sure if the Commissioner was present at the last Board meeting when

this was discussed, but he did not think there is an issue with the first part. However, the second part presents issues with respect to what the member is going to get when he retires. He gave an example using Option B where the current assumption is \$899 and if Proposal 1 is selected then it is \$879. He stated that if the average employee is getting \$6,000 a month in his retirement then that is \$240 per month less, which over a year calculates to \$1, 440. President Romero mentioned that Mr. Canzano expressed a concern at the last meeting that getting \$1,440 less a year is a change in your benefit. But the position of Counsel is that there is no change in benefits. President Romero expressed that this is why he felt this is a “meet and confer” issue. He further expressed it was up to labor and management to decide if the employee or employer should bear the cost, and not the Retirement Board because the Board assumed the mortality tables that were already in place when the Board members took their seat on the Board. President Romero explained that the first assumption on the valuation does not impact the employee’s retirement pension so the Board may be comfortable with that. Mr. Canzano commented there was a lot of legal expertise at the meeting and suggested the Board extend an offer to Attorney Marr to comment on his belief that it is not a meet and confer issue, for the record. He expressed that he would have a hard time feeling it is not a meet and confer issue if an employee who retired before the changes was getting more money than the employees retiring after the changes. He then requested to hear from Counsel.

Attorney Cecil Marr approached the Board table. President Romero recognized Attorney Marr.

Attorney Marr suggested the first thing the Board needs to decide is whether the issue should be discussed in closed session or not. He stated normally your exercise of decisions relating to meet and confer would be something that is discussed in closed session. He further stated the Board’s receipt of legal advice on that would be something they would receive in closed session. Attorney Marr pointed out a consequence of discussing legal advice in open session is the waiving of any attorney/client privilege the Board might enjoy with respect to that advice and it becomes a public record. President Romero commented that in the past they have been very strict as to what the Board could go into closed session about and what should be public. He mentioned when Attorney Weisz-Jones was present she instructed the Board on what constitutes closed session. He expressed it was his preference that it be open session because the Board is here for the public to make sure that things are fair for everybody and the public deserves to hear what is being discussed.

Attorney Marr indicated the advice he is prepared to give the Board relates to the Retirement Board’s obligation regarding meet and confer and not management’s obligation. He stated the Retirement Board may have an obligation to meet and confer, that will be discussed either in open or closed session. He stated that entering into closed session for the purpose of instructing a labor relations representative is perfectly acceptable practice under the Brown Act. However, it has to be properly agendaized unless you have a reason to go into closed session from a properly agendaized item. He stated he did not want to advise the Board on the Brown Act but wanted to bring it to their attention that they have the opportunity to receive legal advice in closed session. He stated he also wanted to let them know the failure to exert that means they will effectively be waiving any attorney/client relationship they might have with respect to the

confidentiality of that communication. Mr. Canzano expressed that the Board was present to represent all aspects of the Plan and he wanted to ensure that Plan participants interests are protected. He stated when he sees proposals that will reduce the amount of benefit that a Plan participant will receive in retirement then he cannot help but think that this issue should be openly discussed. Attorney Marr inquired if the Board wanted to take a vote to see if the majority of the Board wished to waive the attorney/client privilege. President Romero asked Attorney Wilkinson if the Board should take a vote. Attorney Wilkinson responded it was up to the Board. Attorney Marr expressed that he would feel more comfortable with a vote. Commissioner Hogan-Rowles inquired if Attorney Marr was saying he wanted the Board to go on record stating they are willing to waive the privileges. Attorney Marr mentioned that his office would not normally give this advice in open session and would consider it as privileged advice to the Board. He stated if the Retirement Board wanted to make this advice open, which they are effectively doing by maintaining open session, then he would like to have a vote on it so that it is understood that the Retirement Board has decided to waive attorney/client privilege that they would otherwise be entitled to. Commissioner Hogan-Rowles inquired if there would be a problem if the Board decides to go into closed session, hear the information, and then decide to say it publicly. Attorney Marr responded that he would yield to Attorney Wilkinson on Brown Act issues. He stated it was his belief that if you have a properly noticed item on the agenda and you come across a matter to which you could go into closed session on, then you could recess to closed session to discuss only the legal advice relating to that item if appropriate. However, if the Board takes any action it has to be reported. Attorney Wilkinson recommended if the Board decides to go into closed session then it should be agendaized for a future meeting because the way the agenda was set up the issue of meet and confer was a secondary issue. President Romero asked Attorney Wilkinson, as the Board's attorney, if he had a problem with them discussing the issue in open session. Attorney Wilkinson responded that as Attorney Marr is stating, this is really the Board's call. Commissioner Hogan-Rowles commented that maybe the Board should take Counsel's advice and opt for the closed session, and if they find they want to make it an agenda item at the next meeting then they will still have that option. She added that it will give the Board a little more freedom to discuss the issue. President Romero inquired when the Board members come out of a closed session meeting did they only have to report whether action was taken and not the specifics of the action. Attorney Marr responded in the affirmative, adding that if the Board receives legal advice they could always waive their privilege down the road. He stated the Board could receive, consider, or disclose it if they so choose. However, if they receive legal advice in public session they would not have the option of keeping something confidential. Attorney Marr informed the Board that another reason the Board may want to meet in closed session is because the legal advice he may give, may give rise to follow up questions from the Board and discussion about "what ifs". He explained that this was not well handled in public session because it does not allow for the kind of freedom that you would ordinarily want to have with an attorney who is trying to advise the Board on their responsibility. Attorney Marr expressed it was particularly important in this case because he senses from the conversation before he came that the Board was viewing this as a responsibility of Department management. He stated it is not the responsibility of Department management and what is being addressed is the responsibility of the Retirement Board to meet and confer. He stated the Board may prefer that matters be handled in a way not to require the necessity of the meet and confer process and that is

a matter for the Board members to consider as a Board. Attorney Marr emphasized that for this reason it would be prudent to at least receive the advice in closed session and Attorney Wilkinson would presumably agendaize it. He added that if it is agendaized the Board may need to designate a bargaining representative. He stated he did not know if that had already been done by staff or if staff employed someone from the Department as a bargaining representative. Mr. Vazquez expressed he felt it should be a closed session item. Commissioner Hogan-Rowles agreed with Mr. Vazquez. President Romero reiterated that he had reservations with going behind closed doors because he feels the public is entitled to hear what is being discussed.

Commissioner Hogan-Rowles expressed her concern that as the Board moves through the process of witnessing what the outcome will be, it seems to her that what they are really trying to do is make sure there are funds to cover the benefits going forward based on the current employee base. She stated the tough part may be that people get 10% to 15% less per month which adds up to \$400 to \$500 at the end of the year, and over a lifetime may be \$5,000 to \$15,000. But what it also does is ensures that everybody gets their money. Commissioner Hogan-Rowles expressed there are some tough decisions to be made as a Department and as a Board in making sure employees are not stuck like Social Security in the future. She then reiterated that she wanted to discuss the issue in closed session and that she does not have any vested interest other than doing what is best for everybody. Mr. Canzano stated he would yield to the suggestion of closed session with the understanding of having the option to divulge what was discussed afterwards. Ms. Coffin expressed she did not have a problem with closed session. However, she does have a problem with employees getting less money per month. She then inquired, how would it work if the Board met in closed session and some of the Board members did not want to reveal what was discussed in open session. Attorney Marr responded that when a board enjoys an attorney client privilege it is the privilege of the Board to disclose the attorney client privilege, which is generally done by a majority vote and not by an individual. He reminded the Board they would always have to report any action items. However, normally with negotiations there are no action items, just instructions to the negotiator to take a certain position or notify the union with respect to certain things and take a certain position. Attorney Marr explained that normally the disclosure is not of a bargaining position, but through the collective bargaining process. Attorney Wilkinson clarified that the closed session item would be strictly on the meet and confer issue and not regarding the actuarial study.

Mr. Vazquez commented that the Retirement Plan was changed back in 1991 and it involved a similar situation of going to a new annuity mortality table. He stated it more or less froze it for retirees that retired prior to July 1, 1991, and made this effective for retirees that retired after that date. Mr. Vazquez then requested that research be done to see whether that particular instance was a meet and confer item. Ms. Bhatia responded that in accordance with the Plan it takes the Plan amendment process to update it to the new set of tables. She stated staff already researched it and checked the minutes, but can look into it further and bring the information before the Board. Mr. Blunk indicated he reviewed those particular minutes and saw no mention of the meet and confer issue when it was presented to the Board of Administration in regards to these issues. He added that he would do more research to see if there was something that was not in the minutes. Ms. Bhatia stated that in the past it seems that the five-year experience study recommendations were provided by the actuary, the Board acts on

those recommendations, and the tables are adopted and this is necessary in order to update the tables. She reiterated that in the past there have been one set of tables, whether it is on the valuation side or for the calculation of member benefits. Ms. Bhatia indicated that it appears that this time there are a lot of details as far as the impact on the allowances and it only impacts members going forward. She stated it appears from the research conducted that updating the tables into the Plan was a routine matter. Mr. Canzano inquired if, at that time, it resulted in employees prior to that date getting different retirement allowances than employees after that date. Ms. Bhatia responded in the negative. She explained that the assumptions are to be adopted for valuations going forward. Ms. Coffin expressed it was her belief that it would be a Plan change if her benefits are going to be different than someone who retired previously. Mr. Blunk responded that the change would have an impact on individual members when you draw the line in the sand. At the end of a fiscal year you would implement a change in the mortality table, it would be adopted by the Board, and later there would be an implementation date in which you switch the tables that are being used and the calculators which determine present values. He explained that when you are looking at the issue of what is the net present value of a benefit in its totality paid out over a lifetime you might say that number "A" who retires gets the first amount based on the fact we are using the current assumption. There is a value associated with this and that reduction is associated with the lifetime and the mortality tables extrapolates a period of time in which you expect to make the payments for the member and also reflects a part of that for the beneficiaries. Mr. Blunk further explained that when you add up the value of the retirement over the total period, it is supposed to be quasi equivalent to what it would have been for just the base benefit over the same lifetime. When you change the mortality you are changing the spans expected for the longevity of the member and the beneficiary. Also, because of the percentage changes and gender mix, it will also be changed based on the experience in the system that has been observed by the actuary. Ms. Bhatia clarified if someone is 50 years old today and has a life expectancy of 50 years, a "setback" is used and it is as if the member were 48 years old and now they have a life expectancy of 52 years. Consequently, you are spreading the same benefit over the life time over a longer number of periods.

Commissioner Hogan-Rowles referred to page 13.3 of the agenda package, under the heading, "Potential Impact of Taking No Action on Member Calculation Recommendations", wherein it states, "Board members should be aware that the expected impact of not adopting the recommendations would be visible over time as additional Plan costs." She then inquired if there was any idea of what those Plan costs would look like, because it seems you are going to pay one way or another. Mr. Blunk responded that it ends up in the valuation and the whole purpose of the experience study is to try and develop an extrapolation of what will happen. Commissioner Hogan-Rowles inquired if the Plan cost would then be channeled back to each employee. Mr. Blunk responded that all Plan costs under the defined benefit context are covered by the entity responsible for ensuring the benefits are paid, in this case the plans sponsor. At the end of the month, for all of our payrolls, if all the investments disappeared tomorrow, the Plan sponsor would still need to make sure the retirees are paid. As far as members are concerned, shortfalls would be more likely to impact future members, but only if the Plan was changed due to the shortfalls. Ms. Bhatia commented it would end up being an increased required contribution by DWP over time. She explained that the mortality tables are expected to not only provide what the funding requirements are

by the Department, but also to reflect what the expected life expectancies are for the members they serve. Ms. Bhatia referred to a memo on page 13.2 wherein there is a heading named "Potential Impact of Taking No Action on Valuation Recommendations", which is the annual valuation to determine funding requirements. She noted this was in reference to the member calculation recommendations if no action is taken, we maintain the current tables, and eventually over time it is going to show up as increased funding requirements. Mr. Blunk added that the way it shows up is the additional liability that would come from the experience in a year.

Ms. Coffin commented that when a member retires they will most likely be receiving less money than when they were working, so every little bit of money will be significant. She stated a lot of people currently live from check to check, and in that case it does not matter if you are going to get the same amount of money at the end of 10 or 20 years. because you need that money now to pay your bills.

President Romero suggested calling the organization and inquiring if they feel it is a meet and confer issue and stop wasting time discussing it. He stated the Board should not take action strictly based on Counsel's advice because, for the record, Counsel has advised the Board that other issues were not meet and confer and they actually were. He further suggested letting labor and management hash out that benefit, which is short term and no significant impact to the Plan. Ms. Bhatia responded that The Segal Company has indicated that in the short term there is no impact, but over time it will be seen. Commissioner Hogan-Rowles inquired what is meant by "over time". She stated if "over time" means 3 years then the Board needs to take action, but if it means 25 years then the Board really needs to take action in order to prevent a huge unfunded liability. Commissioner Hogan-Rowles inquired how to inform each member what their retirement benefit looks like so that they can be better prepared for their retirement. Ms. Bhatia responded that the employee benefits statements are issued to each employee every year and it projects their allowances at age 55 and 60 or whatever age is applicable.

Mr. Vazquez expressed that the Board has a fiduciary responsibility to consider the advice and recommendations of the actuary based on how things change over time. He pointed out that the actuary addresses the inflation assumption, earning assumption, and also needs to address the mortality assumptions. He stated if they are different or change, then the Board needs to consider this as part of their fiduciary responsibility to the Plan.

President Romero announced that the Board would be going into closed session to address the meet and confer issue. Ms. Bhatia inquired if action could be taken on the valuation side of the recommendations. Mr. Canzano inquired if there would be any impact to the optional tables. Mr. Blunk responded in the negative, adding that it was just the valuations for the purposes of the required contributions so that the fund would remain properly funded.

Commissioner Hogan-Rowles moved the approval of the recommendation of the 1994 group annuity mortality tables on the valuation side. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

14. Retirement Plan Manager's Comments
a) General Items

Ms. Bhatia mentioned she had already provided an update on the JEA contract process and it is expected the contract will be signed at the end of the week. She stated there are some issues with the escrow agreement because it was thought that the contract could be signed and work begun pending the finalization of the escrow agreement, but she was advised that it is a three party agreement and needed to be worked out and finalized first. She added that work is expected to begin as soon as the contract is signed.

15. Future agenda items

The Board meeting was adjourned at 10:25 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

Kawana Key
Recording Secretary