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

MINUTES – April 18, 2007

Present:

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

Absent:

Ronald Deaton	General Manager
Forescee Hogan-Rowles	Commissioner

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 9:36 a.m. He then requested a moment of silence to acknowledge the students who lost their lives at Virginia Tech University.

[Pledge of Allegiance]

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

1. **Termination from Monthly Rolls as of April 2007:**
   Retirement Resolution for April 2007
   Resolution Terminating Marion J. Blodnikar, William McClellan and Jessie Safra from the April 2007 Survivorship Roll as a result of their deaths
   Resolution terminating David A. Turrietta (attained 18 years of age) and Juventino Turrieta (son attained 18 years of age) from the April 2007 Family Death Benefit Roll
   Resolution appointing Sharon Mitchell as trustee for Eva G. Horney, wife of Rex G. Horney, deceased

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

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

2. **Report of Payment Authorizations as of March 2007**
3. **Notice of Deaths for March 2007**
4. **Report on Status of Insurance as of March 31, 2007**
5. **Summary Investment Returns as of March 31, 2007**
   a) **Market Value of Investment by Fund and Month as of February 28, 2007**
   b) **Market Value of the Retirement, Death & Disability Funds and Retiree Health Care Fund as of February 28, 2007**
   c) **Investment Returns as of February 28, 2007**
6. **Report from City Attorney Michael R. Wilkinson on Winter Section Meetings from the National Association of Public Pension Attorneys**
7. **Report on Invesco personnel changes**
8. **Report on Wells Capital Management (Wells) personnel changes**
9. **Report on PRISA personnel changes**

Mr. Canzano moved the above items 2 through 9 be received and filed. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

Item 14 was taken out of order.

14. **Discussion of Actuarial Recommendations for Changes in the Assumptions Used for Actuarial Calculations and possible action**

<u>PUBLIC COMMENTS</u>

Mr. Maurice Doucette of the Training and Development Section of DWP approached the podium. President Romero recognized Mr. Doucette.

Mr. Doucette stated he wanted to speak against the approval of the actuarial action because he feels when employees entered DWP they entered into a contract and the contract stated certain things would be received, and if there were any changes it would have to be a bilateral decision to make those changes. He added, to his knowledge, no one on his side has been asked this question. Mr. Doucette stated If changes were being proposed then both sides needed to meet to discuss the best action to take and everyone have a consensus on the appropriateness of the action. He expressed that a lot of things in the Department in the past have been made in a bilateral way and they usually do not come out very well because all of the issues are not examined at that time. He recommended before going into something like this that it be under considerable more study than an actuarial report and the impact on all people involved be determined. Mr. Doucette returned to the audience

Mr. James Robert Herrington of the ITS Section of DWP approached the podium. President Romero recognized Mr. Herrington.

Mr. Herrington stated prior to being employed by the City of Los Angeles he worked as a Deputy Real Estate Commissioner with the California Department of Real Estate. In connection with his duties, they were charged in large measure with the enforcement of laws and regulations impacting business and the ethical conduct of persons licensed by his division. He indicated one of the inviolate principles and standards uniformly adhered to was the sanctity and preeminence of the obligation of an agency which requires that one entrusted with the representation of another's fiscal or business matters uphold the interest of its client exclusively. Mr. Herrington stated it was his understanding that the Retirement Board was acting in a position of fiduciary trust in deciding whether the beneficiaries of the Retirement Fund should incur a reduction in the monthly benefit allowance and a change in the amortization under some parts of the Plan. He expressed that there is a flagrant violation of duties arising from agency obligations in that certain members of the Board anticipate the payment of bonuses predicated on a crude cost savings to the Retirement Funds through the implementation of the change at issue. He further expressed that members of the Board would thus compromise their position of fiduciary trust for personal gain – a clear and unequivocal breach of agency obligation. Mr. Herrington stated that, at minimum, any Board member having such a conflict of interest should abstain from both the debate on the matters in question and any vote that arises in connection with the disposition of the Board regarding that matter. He then stated that as a Retirement Plan beneficiary he is calling for the rejection of the proposed change. Mr. Herrington returned to the audience.

Mr. Gus Corona of IBEW Local 18 approached the podium. President Romero recognized Mr. Corona.

Mr. Corona informed the Board that it is the Union's position that the Board's intent to change the mortality tables with respect to the options in the change in benefits is a meet and confer issue. He stated the union demands that this issue be deferred until the meet and confer process is completed; otherwise, IBEW Local 18 will file an unfair labor practice. Mr. Corona returned to the audience.

BOARD'S DISCUSSION REGARDING ITEM 14

President Romero indicated there is a flyer posted in the building, that he had not seen himself, implicating the Retirement Plan Manager of trying to change the benefits unilaterally to benefit her. He stated there has also been a discussion that he, as Chair of the Retirement Board, had voted to proceed with the changes and that there would be a 10% reduction in the employees' benefits. President Romero expressed the rumors are really "flying" and he wanted to make it perfectly clear that the Plan Manager is not involved in any way with the changing of benefits to benefit herself. He further expressed there has been no action taken and the Board has only been discussing the issue. He explained that the issue arose as a result of a five-year experience study from the actuary and based on that information this was what the cost was to the Plan. Based on that, there was a potential for a reduction in the amount of money an employee may be getting. President Romero reiterated that this was not a conspiracy from the Plan Manager or anyone else. He explained that it is just a five-year experience study that is being discussed, which option to choose, and whether or not it is a meet and confer issue. He emphasized that all rumors needed to cease.

Mr. Canzano expressed he was fully behind President Romero's comments. He clarified that many of the Board members feel very strongly that this is a meet and confer item and have received conflicting input on whether or not it is. Mr. Canzano indicated it was the Members of the Board that raised the issue of not proceeding until the meet and confer issue was resolved. He added that it was very nice to see people in the audience show up and take an active interest in their retirement.

Ms. Bhatia indicated she received a couple of emails and responded to some of them, which is when she discovered there was erroneous information circulating. In her response, she stated the Retirement Board is performing their fiduciary responsibility in reviewing the recommendations as a result of the experience study by the actuary. Ms. Bhatia explained that the Retirement Board is required to do this every few years in order to keep up with the changes noted by the actuary in the experience study. She indicated she also noted in her responses that the Board is looking at all aspects of the impact of updating tables or adopting any of the other changes that the actuary provided and will determine the best course of action. Ms. Bhatia reiterated that she did not have the authority or power to make changes to anyone's benefits, including her own.

Ms. Coffin expressed that whoever is responsible for starting and spreading the rumor about Ms. Bhatia personally benefiting from proposed changes is totally irresponsible and she is glad to see that there are members from the union present to put the rumor to rest.

President Romero stated, in light of what he heard today, he felt it would be prudent to recommend a meet and confer process ensue. Mr. Moore commented that Ms. Bhatia would need the Board to direct her to send a letter to the unions stating the Retirement Board is looking at the matter and then it would be up to the unions to respond to that letter by saying they want to meet and confer.

Mr. Moore motioned a letter be sent to the unions. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Mr. Vazquez commented the Board was given a report by the actuary updating the five year experience study. He noted the actuary recommended one of two paths that could be taken regarding the mortality tables and nothing else.

Mr. Moore commented that the role of the Retirement Board is as a fiduciary and must face a balancing of interests. He pointed out that the actuary is not speaking to the benefits that are paid for those that take the normal retirement, but to the various options that are offered. He explained that what the actuary is saying is, based upon the actual actuarial experience, the pattern by which people are dying or retiring is such that the discount made in the normal retirement is not adequately reflecting the actual experience the Plan is facing. When that is the case, what will happen is that if more is paid out to people taking these options than the actuarial experience would suggest should be, that money is really coming out from the other Plan members and participants. Consequently, there is a balancing of interests. Mr. Moore further explained that ultimately it could be said that the Department is the final balance in terms of its contribution, but the role the Retirement Board is required to play as a fiduciary is to balance these interests and not favor one group versus another. He stated this is why the Board looks to the actuarial study as a major guide in terms of determining the actual experience and costs incurred by the Plan. Then they come up with the allowances that are listed under the various options. He stated this has been done multiple times in the past and will be again.

Attorney Wilkinson explained to the Board that the process in going forward, if the issue is identified as a meet and confer, is to choose a representative and set a time to advise the representative in closed session. Mr. Moore inquired if, theoretically, the Retirement Board could negotiate with the unions across the table, or if the Board had to appoint a representative and give them guidelines as to the terms the Board wants. Ms. Bhatia responded that the Board, historically, has not been the negotiator. Attorney Wilkinson informed the Board that this was Attorney Cecil Marr's (Labor Attorney) area of expertise. Ms. Bhatia inquired if there was a way of contacting Attorney Marr. Attorney Wilkinson responded not for this session, but definitely for a future one. Mr. Moore suggested scheduling Attorney Marr for the next Board meeting. President Romero suggested, if the Board's goal is to update the tables, to present the goal and options according to the actuary's recommendations, inquire what both sides feel comfortable doing, and whatever is agreed upon be brought back to the Board. Mr. Moore pointed out that the Board represents one of the sides. Therefore, if the majority of the Board can decide what they want then the representative should be directed to negotiate with the unions.

Ms. Coffin inquired how the Board goes about selecting a representative. Ms. Bhatia responded that Mr. Robert Rozanski and Mr. Hal Lindsey are the designated representatives for management according to the advice given to the Board by Attorney Marr at the last meeting. She stated Attorney Marr also advised it is the Board's responsibility to designate a labor relations representative and the instructions should be provided in closed session. Mr. Vazquez commented that the Retirement Office does not have labor relation members and needs to rely on the Department to furnish one for any meet and confer issues. He suggested the Board should leave it to the Department to designate a representative. The Board members agreed with Mr. Vazquez's suggestion. Attorney Wilkinson informed the board that the advising of the representative should be agendized and discussed in closed session.

10. Discussion of real estate investment opportunity and update by Pension Consulting Alliance (PCA) and possible action

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

Ms. Alsterlind noted that in March PCA mentioned they were currently reviewing an investment opportunity for the value added sector of the real estate portfolio. She stated this investment is with Prudential Real Estate Investors, the current manager in the core sector. Ms. Alsterlind reported that $50 million was placed with them and into PRISA in August and all of that money has been drawn down. She stated PCA completed their due diligence and representatives from Prudential were present to provide the Board with a presentation and to give the Board an opportunity to ask questions.

Mr. Mark Oczkus, Principal, and Mr. Terry McHugh, Managing Director, of Prudential Financial approached the board table. President Romero recognized the Prudential representatives.

Mr. Oczkus reported that Prudential has been managing real estate for US institutional management since 1970. He stated their investment approach is to fund managers through the core, core plus, value-added, and opportunistic space. Mr. Oczkus indicated Prudential has vast resources with over 260 employees on their US staff, including 149 investment professionals. He mentioned that Allen Smith, who previously served as the Sr. Portfolio Manager for the team governing PRISA, has been promoted to the head of the U.S. Real Estate Investment, which encompasses more than two thirds of the firm's total assets under management. He indicated that DWP's investment in PRISA is in very good hands with the team that is in place.

Mr. Oczkus reported that PRISA and PRISA II were flagship products and their sources of funds are well dispersed across corporate pension funds, Taft Hartley pension funds, and public funds. He stated the PRISA contract having been completed and gone through that process makes the contract process for PRISA II much easier. He further stated the contract would be the same and they would simply substitute out a couple of pages where it states PRISA and change it to PRISA and PRISA II. Mr. Oczkus reported there were 15 team members dedicated to the PRISA II portfolio management team and the three top portfolio managers have been together for 14 years and purchased every single asset in the $5 billion portfolio. However, Paul Bordogna was out on disability and may not be back with the company.

Mr. McHugh informed the Board that PRISA II is an account that has been around for 26 years. He stated Prudential's philosophy on PRISA II and their target is to perform 200 basis points over the NCREIF Index over a property cycle. Mr. McHugh described their investment strategy, stating the firm participates in development with local partners and structures transactions and joint ventures to align their interest. He stated they have not used leverage to any great extent in PRISA II and it has been a moderately leveraged account. Mr. McHugh reported Prudential has gross assets of $6 billon, net assets of $4.3 billion at the end of last year, and their leverage at 34% is their highest point ever on that account. He stated they only open the account for new commitments from investors every three or four years when they think there is an opportunity to invest wisely. At that time, the firm builds a pipeline and identifies projects to invest in. Mr. McHugh indicated that Prudential is currently raising money and have gone on a shopping spree to buy assets they feel are good investments for the fund. He stated there is a $250 million line of credit that has been drawn and a couple of acquisition loans that are short term in nature. He further stated when the firm makes their first draw down of new commitments (June 30), it will be a substantial draw at approximately $500 million. He added that a lot of that will be used to pay down the $425 million short-term debt. Consequently, the leverage ratio will go from 34% to the mid 20s very quickly.

Mr. McHugh provided a review of Prudential's PRISA II 2006 performance and 2007 objectives. He reported they had a total return of 18.65% and their objective for 2007 is 11% to 14%, which they feel is still a healthy real estate return. He added that the firm just reported their first quarter results last weekend and it was a 4.1% return. Mr. McHugh indicated Prudential has two cash flow returns called NOI and Total Operating income. He stated he mentioned that the PRISA II account participates in development activities and sometimes sells properties upon completion of development. He continued that consequently, they never really invested any funds in that and it is on loan, gets developed, they sell it, and there is a cash gain that comes to them. Mr. McHugh stated the cash gain is considered to be additional cash flow for purposes of this measurement. He explained the NOI cash flow is coming off of income from properties added to that are cash flows coming from the short-term hold strategies where they are selling and creating cash gains for the investors. Mr. McHugh reported that last year the firm did $1.4 billion in acquisitions

Mr. McHugh stated the PRISA II fund falls into the value added category, and the PRISA the Plan is currently invested in is a core fund. He stated, part of their strategy is targets for product type, diversification, and geographic diversification. He stated Prudential is much more flexible on diversification and does not have a stated strategy as far as certain ranges on different product type or different geography, and tend to follow where they think there is most opportunity to create value. Mr. McHugh reported that historically they have been heavily weighted towards coastal markets and have a bias towards it because that is where it is hardest to get development approvals. However, this is where you get the most gain and appreciation when successful. He stated the fund is well diversified and the investors have the right to take out money any quarter.

Mr. McHugh described Prudential's primary acquisition strategy, stating they partner with local developers who know how to obtain approvals and know the general contractors who know how to build and complete a project. He stated Prudential becomes their capital source and enters into an agreement with a lender that will lend them money to build a project. They then agree that if the developer completes the project on time and meets the approved specs then Prudential will be there to fund at the end of the project. The amount they agree to fund is based upon a budget that is approved with the developer. Mr. McHugh stated that in exchange for sharing the risks (cost and leasing), Prudential prefers their partner leave approximately 1% to 4% of money in the deal and the partner is rewarded on the back end of the project when it is successful. Mr. McHugh indicated, in keeping with that strategy, they do predevelopment commitments with their development partners and get involved a little earlier in order to tie up the developers and commit them to dealing with Prudential under their terms.

Mr. McHugh stated the firm has also developed the ability to do large transactions and split those transactions among portfolios. When looking at their PRISA, PRISAII, and several other accounts, they have a lot of capital available. He stated when looking at a $2 billion - $4 billion transaction, which may be too big for any one account to do, they have the ability to split it up and allocate it fairly between those accounts, execute on a transaction, and access deals that perhaps other funds may not have access to. Mr. Moore commented it was his understanding that when this is done, each property will only go into one fund and will not be split. He inquired how the firm makes a determination as to the value of a particular property. Mr. McHugh responded it would be performed by Prudential's acquisition team and sometimes by their partner. He stated on a lot of the large acquisitions they are partnering with companies that have expertise in that particular property type. He added that this gives the benefit of the partner's valuation and Prudential's acquisition valuations to spread the overall portfolio costs. Mr. McHugh explained they then go through a process of identifying each portfolio's appetite and a more delicate process of determining which assets are going to be specifically allocated to each fund.

Mr. McHugh reported that Prudential has committed to six projects as predevelopments that have moved forward. He indicated one was exited via sale of land resulting in a small profit, which was split with their partner. He added that the others all went forward into actual development activity.

Mr. Oczkus reviewed the firm's terms of reopening for deposit commitments. He stated the pipeline is at approximately $2.2 billion with potential to grow significantly. He also stated Prudential is in the market to raise $2.5 billion and it looks like they will be slightly over subscribed, but they are trying to have things ready to go in time for a June 30 capital call.

Mr. Canzano noted Prudential's objective of NCREIF + 200, and the returns in periods 1, 3, 5, and 10 years when their objective was achieved. He inquired, even over such a long period, what strategies did the firm use for a downward turn in the market. Mr. McHugh responded that the forward commitment program works well in a downward turn also.

Mr. Moore noted, with regards to the geographic concentrations, Prudential has quite a bit of office real estate in the San Francisco Bay area, a considerable amount of residential in Florida, and in retail there is a concentration in both California and Florida. Mr. Moore inquired if that concentration represented some risk. Mr. McHugh responded the concentration did present risk. He explained their office portfolio in the Bay area is interesting in that they added to it significantly in 2005, after the downturn in the tech market. He stated they deliberately bought vacancy there. They purchased a million square foot office park in Redwood Shores that was 40% vacant and now a 1 ½ years later the occupancy has improved from 60% to 77%. Mr. McHugh explained that the history and nature of the account is that they will make overweighting bets based upon their market knowledge. He mentioned another large investment was in a property they acquired in 2001 with Nortel. Nortel was building a regional headquarters and was having issues in the telecom from building it with their own money and needed an investor. He stated between those two projects there was over $600 million of value. Mr. McHugh explained that, on the apartment side, Prudential favors Florida because people are still moving there and the retail they own in that state does very well. Mr. Moore inquired about industrial investments. Mr. McHugh responded his firm has never dealt with industrial in the PRISA II account. He indicated that PRISA, which is the big core account, has a huge industrial component to it. Mr. McHugh explained that unless something can be done on the development side it is hard to get a core plus or value add return in industrial real estate. Consequently, when big portfolios came along that were really core they let PRISA take those, and they also never found a large enough development opportunity there to participate. He added that industrial also had the shortest development cycle; therefore, one faces the most competition when things are going well.

Mr. Moore requested further discussion on the lack of restrictions in the PRISA II account, being that DWP is a very prudent organization. Mr. McHugh responded that the firm’s greatest comfort is that they represent the investor’s wishes and none of the investors want to be totally one sided on diversification. He stated this was an open-ended account and people can make withdrawals on a quarter’s notice. He added that this causes Prudential to think about how they want to build up their portfolio. Mr. McHugh indicated that Prudential meets with an advisory counsel (made up of their investors) twice a year. If the advisory counsel sees the firm going down a road that they feel is totally out of line then Prudential receives feedback.

Mr. Moore inquired at what point will Prudential bring in newer employees and give them the necessary experience and training to replace those retiring. Mr. McHugh stated there are currently three vice presidents with 15 years of experience in the real estate markets and handle significant activities.

President Romero inquired if PCA was aware of and still comfortable with going forward with their recommendation, considering the personnel changes within Prudential over the last 30 days and the disability status of one of their employees. Ms. Alsterlind responded that PCA had just received the information that morning. She then requested elaboration on who was working with Mr. Paul Bordogna on the Apartment Forward Program. Mr. McHugh stated that he does all the other product types and the day-to-day portfolio management of the accounts, while Mr. Bordonga’s focus has been on apartments. He also stated most of the investor and client relationship meetings and overseeing the reports falls under him. He indicated Mr. Bordogna also has some split responsibility because he has been serving as the portfolio manager for the PRISA III account. Mr. McHugh clarified that Mr. Bordogna’s role in PRISA II has not been 100% and has had a team in place for a while. Mr. Todd Goldberg has 15 years of experience and started out in Prudential’s accounting group, spending several years in the real estate groups, rotated through the acquisition group, and has been working with Mr. Bordogna for five years and knows the portfolio very well. He informed the Board and Ms. Alsterlind that Mr. Goldberg has been involved in all of the acquisitions over the last three years and the recent deals that are being signed today for future delivery. Mr. McHugh then indicated that Mr. Goldberg has been targeted as Mr. Bordogna’s successor all along, but it is hoped that Mr. Bordogna’s treatment goes well and he will be back with Prudential in four or five months. He stated the firm is well aware 10 years from now the current senior employees will not be running the account and part of their job is to develop other employees for their roles. Ms. Alsterlind commented that PCA knows Prudential very well and feels they build a strong team and have a lot of personnel involved. She admitted it is a slight concern because Mr. Bordogna is a senior employee, but it is felt they will move forward. President Romero inquired, had the fund already been invested with Prudential when they heard this information, would PCA be putting the firm on watch today. Ms. Alsterlind responded in the affirmative, adding that PCA would put any firm on watch who loses key personnel.

President Romero inquired if $37 million would be committed to the PRISA II fund. Ms. Alsterlind responded that PCA is recommending that up to $35 million be committed because there is the possibility of a cutback and their target was $25 million. Mr. Oczkus commented that Prudential gave the existing investors in the fund 60 or 75 days to raise their hand for their pro rata share and then opened it up to other investors, which might be clients through other products. He stated at the end of the day it is highly likely that all of the investors are going to be cut back 25% to 30% of their initial allocation.

Mr. Moore noted that Prudential has an excellent record, a lot of experience, and a fund already invested in one of their products. He then inquired of Ms. Alsterlind, what discomfort she has given the fact that there is probably an overlap in style and going with the same organization for both real estate investments, as opposed to looking at some of the other players. Ms. Alsterlind responded that PCA is looking at other players, but when they find a manager they are comfortable with and has executed, then they will review their five-year period. She suggested that If it is a good manager with a strong track record then one should invest with them rather than having 15 managers and 15 different products. Ms. Alsterlind expressed that she would rather work with a smaller group of managers that have proven themselves in their strategies, rather than have too many. She indicated that PCA looked at the overlap and found comfort in what they reviewed. Mr. Oczkus expressed there was no doubt that there is some overlap with respect to the fund's investment with PRISA. However, as previously mentioned, they will acquire a large number of properties and parsel them out to various funds. Mr. Oczkus explained that the difference with PRISA II is that there are no limitations in terms of property type, geographic restrictions, or leverage. He stated the firm has done a good job in managing the leverage down to 20% to 30% and sometimes below. He explained that the key difference lies in the fact that there is going to be more forward commitments and mover value-added type of investments. However, with PRISA, that type of activity is limited. Mr. Oczkus stated that Prudential believes there is enough of a difference that there is some overlap, but it will be more than taken care of through the different types of activities that PRISA II will pursue. Ms. Alsterlind responded that as we are in the beginning stages of putting investments out, she is not as concerned about the manager concentration and there are policy limitations that they are cognizant of. Ms. Alsterlind requested the Prudential representatives comment on when they expect the capital to go out. Mr. McHugh responded, as previously mentioned, the firm is going to take a large first draw on June 30. He stated they will draw down all $2.5 billion over a three-year period. Mr. McHugh expressed the firm's goal would be to invest this more quickly, but not at the expense of finding just any deal to invest in. Historically, when opening, they invested money quicker than the investment period they laid out, but officially it is a three-year period. He indicated they have targeted $700 million to be drawn down out of the $2.5 billion between June and December of 2007. The first draw will be substantial at $500 million or more and if they find additional deals they will keep drawing down as needed.

Ms. Bhatia requested the Prudential representatives explain their fees, as far as the cash flow incentive fee. She noted there also seemed to be a little bit of difference on the fees as far as the presentation materials and the summary PCA put into the Board package. Mr. Oczkus explained, as far as the structure of the fees, it is identical to that of the PRISA fund in that there are three components of the fee. He explained that the easiest of the three is the cash component because they charge 10 basis points on that cash. The major components are twofold. One is an asset management fee, which is a percentage of the cost of the assets in the portfolio. He emphasized cost because they do not want to charge a fee on appraised value, which is an opinion of value rather than the cost of the assets that were acquired. He explained when you are selling assets and reinvesting and reacquiring those, the cost base can increase over time, but it is dealing with the appraised value. Mr. Oczkus stated the second component is the cash management fee, which is an incentive for the firm to keep the cash returns in the fund at a fairly high level, vis-à-vis the other value added funds. It is a percentage of the cash flow generated by the fund itself. He stated, included in that cash flow is the “flip deals” where they build the assets and when they are completed and they are getting ready to acquire them and put them into the portfolio. He explained over the last few years there have been a number of opportunities to sell those immediately without ever funding at very generous products, in essence generating an infinite IRR because you are never investing any actual cash. The profit on that gain is included in the cash flow and ultimately the fees. He stated the fees are capped depending on the size of the investment at approximately 110 basis points as a year-to-year average. Ms. Alsterlind commented they break up their cash and set on fee from their management fee. Mr. McHugh stated the fee Prudential takes on the cash flow is only the same cash flow they make available for distribution. Therefore, the investor can elect to take a dividend of their share of that cash flow on a quarterly basis, and the cash flow that is made available is the same cash flow Prudential is being paid a fee on. Mr. Ockuz added that given the investment range, the Department’s fund will cap out at 125 basis points, including the cash management and base management fee.

Mr. Canzano moved that funding of up to $35 million be put into the PRISA II fund. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

The Prudential representatives left the Board meeting.

President Romero called for a recess.

The meeting reconvened.

11. Discussion regarding changes to the organizational structure of PCA [PCA and PCA Real Estate Advisors] and possible action

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

Ms. Bernstein indicated item 11 had been discussed at prior Board meetings. She stated the City Attorney’s opinion and PCA’s consent letter were included in the Board package. President Romero inquired if the Retirement Office staff had any concerns. Ms. Bhatia responded there were no concerns. She stated, based on the City Attorney's opinion, staff is recommending the two forms in the package be approved by the Board. She added that the City Attorney's Office recommend further due diligence. She stated the preliminary information received indicates there are not going to be any significant changes as far as the terms and conditions of the existing contracts.

Mr. Vazquez moved approval of the forms pending due diligence. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

12. Discussion of the PCA/EFI Actuaries, Inc. (EFI) proposed Asset/Liability Study for the Retirement Plan and Other Post Employment Benefits (OPEB) Fund and possible action

Ms. Bhatia stated, at the last Board meeting, PCA and EFI provided the Board with the requested additional information. Among the additional information was the matrix, which compares the attributes of the two approaches of the asset liability study (the one in the current PCA contract and the one being proposed). Additional information was also provided regarding decision factors requested by the Board, as well as concerns regarding the value added with respect to the additional cost being proposed. Ms. Bhatia reported that Staff expressed some concerns regarding the fee and the fact that it was 19% of the current contract, as well as the value added. She stated staff also pointed out that EFI was a competitor in the ongoing RFP process. Ms. Bhatia indicated that based on conversations with some of the clients who used the study; it appears the validation of past actuarial results was the biggest value added. She stated this was discussed at length at the last Board meeting and Board members made a motion to go ahead with the proposed asset liability study. Based on this, staff is bringing back the resolution. However, since the last meeting, the City Attorney also provided additional information indicating there is a potential conflict of interest in connection with the aspects of this proposal.

President Romero suggested selecting an actuary before having the asset liability study presented before the Board to prevent any potential conflict of interest. Mr. Moore commented this may slow down the process and the Committee has not yet looked at the actuary. He also expressed his concerns that this was a conflict of interest. Mr. Moore recommended taking the current resolution and adding a clause that references the asset liability study and says, "but which study shall not include an EFI audit or critical review of the Plan's existing actuary". He stated this does not mean they cannot get or work with their numbers, but as part of that process they are not going to be critiquing the existing actuary. Ms. Bernstein expressed this was a clear potential conflict of interest. She then informed the Board that EFI prefers to withdraw their application for the actuarial position with DWP, at this time. Mr. Vazquez expressed that this would be his preference. Ms. Bhatia inquired if Ms. Bernstein was speaking for EFI. Ms. Bernstein responded in the affirmative. Mr. Blunk requested that EFI's withdrawal be submitted in writing. Attorney Wilkinson informed the Board members that EFI's withdrawal removes any conflicts.

Mr. Canzano moved the approval of Resolution 07-67 regarding the proposed asset/liability study for the Retirement Plan. Seconded by Mr. Moore and carried unanimously after the following vote:

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

President Romero suggested the Audit Committee meet and select a third firm as a finalist. Mr. Vazquez expressed he would rather just select from the two finalists that were left. Mr. Moore and Mr. Canzano agreed with Mr. Vazquez.

Ms. Bernstein left the Board table.

13. Discussion of request from City Attorney Michael R. Wilkinson to attend the Annual Meeting of the National Association of Public Pension Attorneys in Colorado from June 26 - 29, 2007 and possible action

Mr. Canzano moved the approval of Attorney Wilkinson's request to attend the Annual Meeting of the National Association of Public Pension Attorneys in Colorado. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

Item 14 was taken out of order.

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

Ms. Bhatia informed the Board members that the Retirement staff met with James Evans and Associates at DWP for a couple of days. The scope document was reviewed along with a lot of detail, and there are conference calls scheduled. She stated the implementation will be in three phases: the active employee data, the retiree employee system, and the web-based system. President Romero inquired if a timeframe had been developed. Ms. Bhatia responded in the affirmative, stating the active employee data should be in the system and working by April or May of 2008. She stated that six or seven months later the retired payroll system would be implemented and then the web system. President Romero thanked staff for their due diligence on this task.

Ms. Bhatia reported the Governance Committee meeting is tentatively scheduled for April 25 and there were a number of items the committee members requested. She stated staff is trying their best to get all of the questions answered so the Board members can make an informed decision. Ms. Bhatia requested the Board's preference as far as having the meeting on the 25th with the partial information that was obtained and then an additional meeting. She stated the reason she is asking is because at the last committee meeting it seemed that some of the committee members were ready to move ahead with putting a plan in place for divestment, and there were questions raised as far as the role of different company's that had operations in Sudan. Mr. Moore suggested the Governance Committee meeting be scheduled when all the necessary information is available and thorough.

Ms. Bernstein approached the podium. President Romero recognized Ms. Bernstein.

Ms. Bernstein stated, regarding Item 8, Wells Capital Management (managing the high yield portfolio), has had a significant personnel change. She stated she wanted to bring forth a resolution at the next Board meeting recommending the firm be placed on watch status.

16. Future agenda items

Mr. Canzano requested staff look into the possibility of DWP retirees being able to take a lump sum that is in line with what LACERS and Fire and Police Pensions have, and do it in a revenue neutral manner. Ms. Bhatia informed the Board that this would be a Plan amendment. She explained that, historically, there is an actuarial study performed regarding what is being proposed compared to what is currently in place in order to get an answer on whether it would be revenue neutral to the Plan,. The results are then presented to the Board. Ms. Bhatia indicated this was a benefits change and is basically providing an additional option. She informed the Board the item could be agendized at a future meeting. President Romero expressed it would not hurt to discuss it. Attorney Wilkinson informed the Board that this issue would definitely be a meet and confer because it is a benefit change.

Ms. Bhatia informed the Board that staff is coming out with an active newsletter with an article regarding the additional contributions.

Mr. Canzano requested that staff order Retirement Board name placards.

The Board meeting was adjourned at 11:45 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON GONZALEZ
Recording Secretary