

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

MINUTES – June 6, 2007

Present:

Eugene K. Canzano	Board Member
Cindy Coffin	Board Member
Michael Moore	Retiree Member
Forescee Hogan-Rowles	Commissioner
Ron Vazquez	Chief Financial Officer

Absent:

Ronald Deaton	General Manager
Javier Romero	President

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Irene Colòn Gonzalez	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Michael Wilkinson	Deputy City Attorney

Mr. Canzano called the meeting to order at 9:44 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Mr. Canzano inquired if there were any public comments.

Mr. Donald Edward Benton, retiree, approached the podium. Mr. Canzano recognized Mr. Benton.

Mr. Benton stated he provided public comments at the April 4, 2007 Regular Board meeting to address a letter he submitted to Staff (dated March 21, 2007) requesting he receive a full retirement benefit. He stated Staff denied his request for a full retirement allowance without ever requesting he provide any additional input. Mr. Benton noted on April 4, 2007 he specifically requested Attorney Wilkinson to look into the issue because of the legal complications involved. He requested the Board not receive and file agenda item 2. Mr. Benton requested Attorney Wilkinson review the matter. He also requested Attorney Wilkinson communicate with him so the issue could be resolved.

Mr. Canzano inquired if the other Board members thought the issue should be agendized. He stated he believed the Plan documents were clear, but he had some questions regarding past practice in relation to allowing members to go past a 95% allowance and then select the option. Ms. Bhatia stated the item could be agendized for a future meeting and informed the Board Mr. Benton's request is to change the option he originally selected after the 10-day cut-off period had passed. Ms. Bhatia stated unfortunately certain circumstances have changed and now Mr. Benton would like to elect a different option. She stated Mr. Benton's request had been denied in compliance with Plan provisions.

Ms. Bhatia stated former Assistant Plan Manager, Mark Blunk, was handling this issue before he left the Department. She stated Mr. Blunk had communicated with Attorney Wilkinson regarding the matter. Ms. Bhatia informed the Board she would agendize the matter and inquired of Attorney Wilkinson if it should be discussed at a Benefits Committee meeting. Attorney Wilkinson stated Staff could decide which meeting to agendize the matter for, noting he would be happy to participate. Mr. Benton informed the Board that he travels a great distance to attend the meetings and requested advance notice so that he could be present. Ms. Bhatia inquired if the matter could be discussed today during "Received and Filed", since it has been agendized as such. Attorney Wilkinson responded in the affirmative. Mr. Canzano informed Mr. Benton the matter would be discussed at the present meeting during the discussion of "Received and Filed" items. Mr. Benton thanked Mr. Canzano and returned to the audience.

1. Approval of Board Minutes of March 21, 2007 (Regular Board Meeting)

Mr. Vazquez moved the above item 1 be received and filed. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

2. Response to Public Comments on Request to Change Option

Mr. Benton approached the podium. Attorney Wilkinson clarified the matter could be discussed under the "Received and Filed" section, however, no action could be taken. He explained if there is any action to be taken, the item must be agendized for a future Board meeting as a regular item. Ms. Bhatia stated in consideration of the distance Mr. Benton must travel to attend, she believed it was a good idea to receive his input today and the item could still be brought back at a later date.

Mr. Vazquez inquired if Mr. Benton could share the additional information he has spoken of. Mr. Benton suggested the item be discussed at the end of the agenda, so that he may collect his thoughts and avoid holding up the other scheduled agenda items. Mr. Canzano agreed to Mr. Benton's request. Mr. Benton returned to the audience.

3. Annual Performance Review Presentations as of March 31, 2007 for Small Cap
a) Earnest Partners

Mr. Paul Viera, CEO, and Ms. Katie Driver, Portfolio Manager of Earnest Partners approached the Board table. Mr. Canzano recognized the representatives of Earnest Partners.

The representatives reviewed the annual performance of the Earnest Partners small cap portfolio.

Mr. Vazquez stated Mr. Viera noted Earnest Partners' 1st quarter performance reflects the contributions of small steel companies and also stated that there was a lot of excess capacity in Japan. Mr. Vazquez inquired what changed. Mr. Viera stated Mr. Vazquez's question is exactly the point. He stated in the small cap universe the share prices have done extremely well over the past 9 months. Mr. Viera stated the Earnest Partners view is those have not been worthy investments because of the steel production capabilities in India, China and other countries. He stated Earnest Partners believes the smaller, domestic steel companies will not be able to produce the economic results that are warranted to support the securities prices.

Mr. Vazquez asked what was driving the steel prices up. Mr. Viera stated he does not know. He added clearly commodity prices have gone up and some people sophomorically believe if commodity prices increase then steel prices also increase and steel companies are more valuable. He stated Earnest Partners believes there is a disconnect between the physical demand for steel and who the demand is from and who will be able to deliver it. Mr. Viera stated he calls it a hedge fund/speculative notion of people going out and buying steel in the commodities markets because of the belief that the demand for steel and commodities in China and India is high. He stated that is not going to translate into economics for the small domestic steel manufacturer because they will never be able to participate in that.

Mr. Vazquez inquired if financials had rebounded, noting they were down 4.3%. Mr. Viera responded in the affirmative.

Mr. Vazquez inquired as to the percentage of growth on the Plan's initial investment of \$95 million. Mr. Viera stated it was approximately 14% on a compounded basis and approximately 40% on an absolute basis.

Mr. Moore inquired if Earnest Partners still believed housing stocks are good long terms investments. Mr. Viera stated he believed these are businesses that are not subject to obsolescence or chronically in decline. Mr. Moore inquired if any of the companies held are involved in sub-prime lending. Mr. Viera stated currently none of the companies held are directly related to sub-prime lending.

The representatives left the Board meeting.

b) NorthPointe Capital

Mr. Sherwin L. Prior, Research Analyst for NorthPointe Capital approached the Board table. Mr. Canzano recognized Mr. Prior.

Mr. Prior provided an annual overview of the NorthPoint Capital small cap portfolio. Commissioner Hogan-Rowles arrived at the Board meeting at 10:20am.

Ms. Coffin requested Mr. Prior speak to the portfolio's returns in comparison to the benchmark returns in the IT sector. Mr. Prior stated the NorthPointe stock selection did not benefit. He commented the NorthPointe strategy is to focus on valuations noting they prefer companies that are quality and cheap. Mr. Prior explained the market was focused on high Price/Earnings (P/E) ratios, which may be why NorthPointe lagged. He added NorthPointe expects the market will turn because the economy is slowing noting when the economy slows investors tend to flight to quality.

Mr. Prior requested the Board consider changing the policy guideline which states that as a firm, NorthPointe can not hold more than 10% of a security. He requested the Board consider revising this guideline to 15%. Ms. Bhatia stated Mr. Prior's request could be agendaized and discussed at a future time
Mr. Prior left the Board meeting.

4. CLOSED SESSION – CONFERENCE WITH LABOR NEGOTIATORS – Pursuant to California Government Code § 54957.6, the Board will meet in closed session with its labor negotiators concerning labor negotiations with the following employee bargaining representatives:

- **Management Employees Association (MEA)**
- **Association of Confidential Employees (ACE)**
- **Local 18, International Brotherhood of Electrical Workers**
- **Local 347, Service Employees International Union**
- **Load Dispatchers Association**

Item 4 was taken out of order. Item 4 was a closed session item and the audience was requested to leave. The meeting reconvened at 11:38 am. Mr. Canzano stated no action was taken during closed session. He added the Board did give direction to counsel and the labor negotiators on the issue.

c) Paradigm Asset Management Co.

Mr. James Francis and Mr. Gregory Pai of Paradigm Asset Management Co. (Paradigm) approached the Board table. Mr. Canzano recognized the representatives of Paradigm.

Mr. Francis and Mr. Pai provided the annual review of the Paradigm small cap portfolio.

Mr. Moore inquired if Paradigm had added a significant number of new clients. Mr. Francis stated seven new clients had been added.

Ms. Coffin inquired if the performance in Financials was due to the sub-prime lending. Mr. Pai responded in the negative, explaining the sub-prime exposure was very limited. He stated Paradigm was underexposed to banks and a modest overexposure to lenders. Mr. Pai stated there was a very controlled allocation to those segments.

Mr. Moore inquired if Mr. Francis would characterize the Paradigm approach as a sophisticated form of momentum investing. Mr. Francis responded in the negative, noting the portfolio has a lower P/E ratio than the benchmark. He stated a momentum manager would have a much higher P/E. Mr. Francis went on to explain the Paradigm process allows them to come up with a 3-dimensional definition and insights as to what creates the best portfolio based on what is currently driving the market. He stated if in the future momentum factors are leading the market, then Paradigm will adjust its portfolios to allow enough exposure to the factors that are driving performance. He stated the portfolio has a more conservative, lower risk profile than the benchmark.

The representatives of Paradigm left the Board meeting.

**5. Discussion of Actuarial Recommendations for Changes in the Assumptions Used for Actuarial Calculations and possible action
(deferred from the April 4 and April 18, 2007, Regular Board meeting)**

Mr. Canzano introduced Item 5 and asked if there was any discussion. There was no discussion.

6. Discussion of Audit Committee Recommendation for Actuarial Consultant and possible action

Ms. Bhatia stated the Audit Committee met earlier today and made a selection of the successful Actuarial firm. She stated, based on the Audit Committee recommendation, the Board is requested to pass Resolution 07-76.

Mr. Moore moved approval of Resolution 07-76 Seconded by Commissioner Hogan-Rowles and carried after the following vote:

Ayes: Coffin, Moore, Vazquez and Canzano

Nays: None

2. Response to Public Comments on Request to Change Option

Mr. Benton approached the Board table. Mr. Canzano recognized Mr. Benton. Mr. Benton stated he received a letter dated May 14, 2007 from Mr. Blunk stating that at the time of retirement Mr. Benton selected Option D in order to fund a continuance. Mr. Benton stated in his situation there was no continuance. He explained his retirement allowance was reduced approximately \$150 per month because he choose the continuance (Option D). Mr. Benton stated at the time of his retirement he was married; however, he has since divorced and remarried. He explained that neither his former wife or his current wife are eligible to receive any continuance. Mr. Benton stated he is

funding a continuance that has no beneficiary. He requested the money be returned to him.

Ms. Bhatia stated the issue is the Plan allows a member ten days in which to change options. She added there is a certain definition of an eligible spouse. Commissioner Hogan-Rowles asked what does the Board have the authority to do. Attorney Wilkinson stated the appropriate thing to do is for the Board to direct Staff to figure the matter out. He added Mr. Benton had already been advised by Staff on what the Plan clearly requires. Attorney Wilkinson noted that is the reason why the item was agendized as "Received and Filed" and he does not believe the Board has any discretion.

Ms. Coffin stated she does not believe Mr. Benton is the first to have this issue and inquired how could the situation be rectified. She inquired should the Plan be changed. Mr. Moore stated he believed the Board should consider whether the Plan provision is appropriate. He stated he was unsure if the Retirement Plan Board can initiate Plan changes. Mr. Moore stated if the Board could make the determination, then he believes the decision should be made, at least partially, on the actuarial findings. He stated there are actuarial assumptions based on mortality and divorce and those assumptions are used to calculate the fees for selecting the various options. Ms. Bhatia stated Staff can only implement the Plan provisions and added individual changes could not be made. She stated each time there is a change to a benefit, an actuarial study of the cost of the benefit is conducted, followed by the Plan amendment process.

Commissioner Hogan-Rowles inquired if the Board could direct Staff to look into the process of a Plan amendment to allow for situations such as divorce. Ms. Bhatia stated the Retirement Board does not have the authority to negotiate benefits. She explained the process of negotiating benefits is part of the meet-and-confer process between the Department management and labor organizations. Attorney Wilkinson concurred with Ms. Bhatia. Discussion ensued.

It was suggested the item be agendized for the Benefits Committee.
Mr. Benton left the Board meeting.

7. Reports for Board Reference

- a) Report on status of Insurance as of April 2007**
- b) Investment Returns as of April 30, 2007**

8. Retirement Plan Manager's Comments

a) General Items

As a follow-up to an email sent, Ms. Bhatia reminded Board members that Mark Blunk, former Assistant Plan Manager, had accepted a position with the Los Angeles City Employees' Retirement System (LACERS).

Ms. Carranceja stated Staff is continuing to make progress with James, Evans and Associates (JEA) on the computerization project. She informed the Board most of the functional specifications had been completed by JEA and sent to Staff. Ms. Carranceja stated JEA will be on site next week and the specifications will be discussed. She noted

security issues such as: disaster recovery, business resumption, hardware and software requirements will be discussed. She stated one additional clerical support staff on the IT team will be hired, noting with that hire the IT team will be fully staffed.

4. CLOSED SESSION – CONFERENCE WITH LABOR NEGOTIATORS – Pursuant to California Government Code § 54957.6, the Board will meet in closed session with its labor negotiators concerning labor negotiations with the following employee bargaining representatives:

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- **Local 347, Service Employees International Union**
- **Load Dispatchers Association**

At the request of Attorney Wilkinson, Item 4 was brought back for discussion. Item 4 was a closed session item and the audience was requested to leave. The meeting reconvened at 12:33pm. Mr. Canzano stated during closed session one matter was clarified and direction was given to the Labor negotiator.

9. Future agenda items

There were no future agenda items.

The Board meeting was adjourned at 12:36 pm.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLÓN GONZALEZ

Recording Secretary