

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

**MINUTES – September 5, 2007**

**Present:**

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

**Absent:**

Ronald Deaton	General Manager
Javier Romero	President
Forescee Hogan-Rowles	Commissioner

**Others Present:**

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Paul Palmer	Chief Investment Officer
Irene Colón Gonzalez	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Neil Rue	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney

Mr. Canzano called the meeting to order at 9:34 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

**PUBLIC COMMENTS**

Mr. Canzano inquired if there were any public comments. Mr. Donald Benton, DWP retiree, came forward. He informed the Board that subsequent to the agreement made at the June 6, 2007 Regular Board meeting to agendize his issue for a Benefits Committee Meeting, he received a letter from Attorney Wilkinson stating that the administrative remedies had been exhausted and a final denial had been made on his request to change his retirement option. Mr. Benton stated he believed his issue was still being discussed as agreed upon at the June 6, 2007 meeting. He added he has read the entire plan and believes pages R-58 through R-61 of the Plan addresses provisions for revocation of options. Mr. Benton requested the discussion remain open.

Mr. Canzano noted that the Board is not allowed to provide feedback during public comments but suggested Mr. Benton summarize his comments in writing and submit them. Mr. Benton explained that he has already provided Attorney Wilkinson with a letter summarizing his position and that is what led to him receiving the letter of final denial. He stated he would like to continue discussing the matter without having to go to court.

Mr. Moore stated that it was decided at the June 6, 2007 meeting that this issue would be agendaized for a Benefits Committee meeting. He asked if a decision had been made not to schedule this item for the Benefits committee. Ms. Bhatia responded in the affirmative. Attorney Wilkinson stated he does not believe this is a matter that the Benefits Committee has any discretion over, noting that in order to grant Mr. Benton's request, a change in the Plan would have to occur. Mr. Moore stated that even if the Benefits Committee has no authority over the matter, he feels the Board is somewhat being cut out of the process. He added Attorney Wilkinson could address the issue of the Committee/Board having no discretion in Mr. Benton's situation at the Benefits Committee meeting. Ms. Bhatia agreed the item could be scheduled for a Benefits Committee meeting to provide information.

Mr. Benton stated that he attended a Water and Power Board of Commissioners meeting and informed them that if there is going to be a law suit, he believes both the Retirement Plan Board and the Board of Commissioners will have to be involved. He stated this is an interpretation issue; he feels the Plan does not need to be changed because there are already provisions included in the Plan to grant his request.

Mr. Benton returned to the audience.

#### **1. Approval of Board Minutes:**

- a) August 1, 2007 (Regular Board Meeting)**
- b) August 15, 2007 (Regular Board Meeting)**

Mr. Moore requested wording "the Board Member" be stricken from the first paragraph on page 1a.5. He suggested the word "ceased" in the last paragraph on page 1b.2 be changed to "seized". Mr. Moore stated the last sentence in the last paragraph was unclear to him. Ms. Bhatia stated Staff would review what was presented at the meeting. It was agreed that the term "balance portfolio" would be referred to as "Balanced Portfolio".

Mr. Moore moved the above item 1 be received and filed, with the noted changes. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

#### **2. Annual Performance Review Presentations as of June 30, 2007 for Core Fixed Income**

- a) ING Investment Management**

Thomas Neukranz, Senior Vice President and Cynthia Dempsey, Senior Portfolio Specialist of ING approached the Board table. Mr. Canzano recognized Mr. Neukranz and Ms. Dempsey.

Mr. Neukranz reported the portfolio's performance as of June 30, 2007: Most recent Quarter (gross)/-0.43%; Year-to-Date (gross)/1.23%; and Annualized since inception (gross)/ 3.57%. He also reported the Lehman Brothers U. S. Aggregate Index performance as of June 30, 2007: Most recent Quarter-0.52%; Year-to-Date/ 0.98%; and Annualized since inception/ 3.17%.

Ms. Dempsey provided a performance analysis and discussed factors that positively impacted the portfolio during the second quarter of 2007, including: security selection, a 4.5% Treasury Inflation-Protected Securities allocation, and an overweight to hybrid ARMs. The top performance detractors included, their interest rate strategy, an overweight position to mortgages, and the position in Commonwealth Edison.

The ING representatives explained the subprime exposure is 3.1% to the portfolio. A chart with geographic breakdowns, delinquency details and other information about the holdings was provided. It was emphasized that ING has the underlying detail in every sub-prime security in the portfolio and the securities are AAA rated.

Discussion ensued.

The representatives of ING returned to the audience.

#### **b) Wells Capital Management**

William C. Stevens, Senior Portfolio Manager and Sandra M. Willen, Managing Director of Wells Capital Management approached the Board table. Mr. Canzano recognized the representatives.

Ms. Willen explained the market value of the Plan's Core Fixed Income Portfolio as of July 31, 2007 was \$1,052,409,809. She stated that represents \$127 million of returns on the initial funding. Ms. Willen noted the yield to maturity is currently 5.66% and the effective duration is 4.62. Ms. Willen summarized the Plan's excess returns for the period ending June 30, 2007 as follows: 1 year (gross)/ 0.27%; since inception/0.33%.

Discussion ensued.

Mr. Stevens stated that approximately 1.5% of the portfolio is invested in home equities. He added all of the securities are AAA and non-levered. Mr. Stevens listed some of the performance detractors as: an overweight to the mortgage sector and overweight to the Commercial Mortgage Backed Securities. The contributors to performance were identified as: the corporate sector positioning and several corporate overweights including Lazard and Allied Capital.

Discussion ensued.

The representatives of Wells Capital Management and ING left the Board meeting.

### 3. PCA's Quarterly Performance Review as of June 30, 2007

Neil Rue and Sara Bernstein of PCA approached the Board table. Mr. Canzano recognized the representatives of PCA.

PCA representatives reported as of June 30, 2007 the WPERP Total Retirement Portfolio's aggregate value was \$7.4 billion, representing a \$248.8 million net increase in value during the last quarter and during the last quarter the Plan's portfolio outperformed its policy benchmark by 30 basis points, however over longer periods the portfolio has lagged its policy benchmark. The Plan's 1-year performance had underperformed the median fund by 100 basis points. PCA noted the entire difference in performance could be explained by the 10% overweighting to fixed-income versus the peers.

The portfolio generated a return of 4.1%, in the current quarter which is greater than the policy target of 3.8%, yet underperformed the median fund return of 4.5%. The Plan is currently engaging in an asset liability study and will be reviewing strategic asset allocations. Mr. Rue commented the Plan's portfolio currently has 10% less risk than the median fund over the last three years. He explained that by accepting less volatility, the portfolio has produced less return. Mr. Rue stated during the asset liability study, the Board must decide if they want to increase their risk tolerance.

Asset class performance for the Plan's portfolio was reported as follows: the Domestic Equity portfolio outperformed the policy benchmark's return by 50 basis points; the International Equity portfolio returned 7.2% versus 8.4% policy benchmark; the Fixed Income portfolio returned -0.4% which outperformed the benchmark by 10 basis points.

Discussion ensued.

#### **08-12            4. Discussion to extend contract with Earnest Partners, Small Cap Value Investment Manager, to August 31, 2010 and possible action**

Ms. Bhatia stated Staff is requesting a contract extension with Earnest Partners and she indicated a due diligence was conducted. Earnest Partners' underperformance relative to their benchmark was noted. Ms. Bhatia stated due to the Plan undergoing an asset liability study and a possibly implementing a new asset allocation structure, it would be prudent to extend the contract at this time. She added there is a provision for termination of the contract with a 30-day written notice.

Mr. Vazquez moved approval of Resolution 08-12. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Coffin, Moore, Canzano and Vazquez

Nays: None

#### **08-13            5. Discussion to extend contract with Wells Capital, High Yield Value Investment Manager, to June 30, 2010 and possible action**

Mr. Palmer stated Staff is requesting a two and three-quarter year contract extension with Wells Capital, Sutter High Yield Investment. The contract extension is being requested to put the Plan's two high yield managers on the same contract expiration period. He stated, since inception this manager has underperformed the index by approximately 28 basis points. He stated Staff would continue to monitor Wells Capital's performance. Mr. Palmer noted there is a 30-day termination clause included in the contract.

Mr. Moore moved approval of Resolution 08-13. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Coffin, Moore, Canzano and Vazquez

Nays: None

## **6. Retirement Plan Manager's Comments**

### **a) General Items**

Ms. Bhatia and Ms. Carranceja provided information on the following:

- Annual Reports-Buck Consultants has been working on the Annual Actuarial Evaluation and expects to present the report to the Board by the end of October 2007.
- External Auditors-Macias Gini is conducting the annual audit and are working in the Retirement Plan offices. Their report is expected in October 2007.
- Computer Implementation-JEA is making significant progress. Staff is reviewing workflow processes and is scheduled to visit LACERA on September 25, 2007 in connection with their FILENET program.

## **15. Future agenda items**

There were no future agenda items.

The Board meeting was adjourned at 11:23 a.m.

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Eugene K. Canzano  
Board Member

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SANGEETA BHATIA  
Secretary

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IRENE COLÓN GONZALEZ  
Recording Secretary