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

MINUTES – October 3, 2007

Present:

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

Absent:

Ronald Deaton	General Manager

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Mary Higgins	Assistant Retirement Plan Manager
Paul Palmer	Chief Investment Officer
Irene Colón Gonzalez	Recording Secretary
Alan Manning	Assistant City Attorney

President Romero called the meeting to order at 9:35 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

There were no public comments.

President Romero welcomed Mr. Scott Vargas, a newly hired Investment Officer in the Retirement Office.

1. **Communication regarding the "2 for 1" retention bonus offered during the 1998 Staff Reduction Program (SRP)**

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, Moore, Canzano and Vazquez
Nays: None

2. Annual Performance Review Presentations as of June 30, 2007 by Investment Managers of the International Developed Markets Mandate:

a) Invesco Global Asset Management

Ms. Sandy Dzinski, Relationship Manager, Mr. Christian Ulrich, Client Portfolio Manager, and Ms. Michele Garren, Portfolio Manger, of Invesco Global Asset Management approached the Board table. President Romero recognized the Invesco representatives.

Mr. Ulrich briefly commented on Invesco's global equity team, stating that earlier in the year two of their team members left the organization for other opportunities and family reasons.

Mr. Ulrich indicated that Invesco's investment process and philosophy has remained the same as "bottom up" managers. He stated the process is based on valuation and financial criteria to identify potentially attractive companies, fundamental research, and portfolio design.

Ms. Garren presented the annual performance review. She stated the initial funding 3 years ago was $270 million and the portfolio has remained steady with no contributions or withdrawals. The total growth of the portfolio was $217.7 million as a result of the strong market backdrop in the international arena, resulting in an ending market value of over $487 million.

Ms. Garren provided the Board members with an overview of DWP's portfolio, stating it is well diversified. She pointed out that the portfolio is overweighted with consumer discretionary and staples, and energy. The portfolio is underweighted with financials, which has been a good thing. She added that there is no exposure to utilities, which is an area that has experienced volatility and the investment team made a decision to eliminate those positions.

Ms. Garren described the portfolio's position with regards to country weightings. She indicated there is an overweight in France and Germany, however; they have increased their exposure in France with the addition of several new holdings. She pointed out an overweight in Finland, the Netherlands, Switzerland, and to a lesser extent, the United Kingdom. Mr. Garren stated that Invesco feels that some of the smaller countries offer better value at this point. She stated the portfolio is underweighted in a pronounced fashion in the Pacific Basin due to a stalled economy and political changes in Japan. She mentioned there is a portfolio overweighting in Hong Kong but there is zero exposure elsewhere in Asia, and they have moved completely out of the Australian market.

President Romero inquired, for clarification, if the portfolio had added value since inception. Ms. Garren responded affirmatively. President Romero stated it was his understanding that Invesco's perspective on this is to maintain the "status quo" and the "tide will turn" in their favor if they maintain their philosophy. He then inquired what timeframe did Invesco see this happening. Ms. Garren responded that the firm began to see outperformance in August (a negative month for equity investors) and this completely reversed in September when the U.S. Federal Reserve moved by 50 basis points. She stated the financing opportunities are still present in terms of the comparison between earning shields and bond yields. Ms. Garren indicated that it has been aggressive and policy makers are very nervous about the inherent leverage in the system given the prevalent alternative investment strategies. The housing market dislocation has moved in a fairly aggressive stance and this seems to have perpetuated the rally despite the very large write-offs from many of the larger financial institutions. Ms. Garren emphasized that the real question is how much of the housing and credit market dislocation is going to filter down to the consumer on a global basis. She expressed there might be a more difficult market climate in going forward that will play into Invesco's hand and investment strategy. She stated it was not out of the ordinary for Invesco to try and keep up with the lower quality companies that might be experiencing recovery or more distressed situations. Ms. Garren informed the Board members that Invesco will be sticking to their strategy and if the market climate continues with the early transitions being witnessed from a capitalization and quality perspective, then DWP's portfolio will be well positioned.

Mr. Vazquez referred to page 22 of Invesco's presentation booklet regarding new purchases and liquidations during the past 3 quarters and inquired what prompted those moves. Ms. Garren responded that Invesco's sell discipline is a mirror image of their buy discipline. She explained the first step is the valuation ranking in which they use a broad definition of value. When they find that the stock is attractive relative to its peers, either on a price to book or earning basis and it offers a return on equity that is above that of the universe, then they would conduct fundamental analysis. Once they are comfortable with that picture they can potentially add the stock to the portfolio. Ms. Garren stated that the converse is also true in terms of liquidations. If a stock appreciates and narrows the evaluation gap the stock is then liquidated.

The Board thanked the Invesco representative and they returned to the audience.

b) Pyramis Global Advisors Trust Company

Messrs. Mike Strong, Institutional Portfolio Manager, and Art Greenwood, Relationship Manager, of Pyramis Global Advisors (institutional business unit of Fidelity Investments) approached the Board table. President Romero recognized the Pyramis representatives.

Mr. Greenwood reported that the two investment managers (Peter Hadden and Steve Oler) were replacing Mr. Rutherford, who resigned last year, have contributed in excess of 250 basis points of value added during the last 11 months and it is reflected in some of the performance in DWP's portfolio.

Mr. Strong reported that it has been a difficult period for Pyramis in terms of relative returns and they have lagged the broad EAFE benchmark slightly over most time periods. However, it has been a very strong period in terms of absolute returns for any

U.S. investor invested overseas, which has been helped by the weakness of the dollar when traveling overseas. Mr. Strong stated that Pyramis underperformed in most of the regions, particularly over the last year through January 30. He stated that only the large exporters were benefiting from fairly robust global growth in Japan. However, Pyramis was underweight in a lot of the companies and, as a result, struggled. But over the last 3 or 4 months that trend seems to be reversing and Pyramis has refocused its portfolio and the performance has been positive.

Mr. Strong reviewed the international growth regional allocation, noting countries the portfolio was overweight and underweight in and the reasons behind it.

President Romero requested the Pyramis representatives include net of fees as opposed to gross of fees on their next report.

President Romero referred to companies that were listed on page 16 of the Pyramis presentation booklet under the heading “Top 10 Negative Active* (%)” and on page 20 as “Top Contributors”. He requested Mr. Strong explain how the same companies could be listed under both headings. Mr. Strong explained that the holdings in the negative top 10 are stocks they do not own; therefore they have a negative weight relative to its position in the index. He further explained that not owning the stock that underperformed is very beneficial to the portfolio.

Mr. Vazquez inquired if the significant underweighting in banks is due to recent changes in the portfolio or if it has been more long term. Mr. Strong responded that historically banks have been underweighted in the portfolio. He noted that last year they were underweighted to banks, particularly in Europe, where they felt their margins were under pressure and there was little opportunity for organic growth. Mr. Strong stated that as they go through the “credit crunch” and they see the prospects improving, they may reduce their underweighted postion somewhat.

The Board thanked the Pyramis representative and they left the meeting.

c) The Boston Company Asset Management

Messrs. Lawrence Ivey, Senior Relationship Manager; Kirk Henry, Director of Non-US Value Equity; and Robert Harkins, New Business Development, of The Boston Company approached the Board table. President Romero recognized The Boston Company representatives.

Mr. Ivey provided the Board members with a brief overview of their company and the value equity investment team. He emphasized that the current team managing DWP’s portfolio is totally separate and distinct from the team that left in early August, and is a stable and solid team. Mr. Ivey reviewed the firm’s stock selection process in which they seek to build portfolios with compelling and joint combinations of value, strong fundamentals, and business momentum. He added that the firm’s sell discipline is the reverse. Mr. Ivey stated that when their valuation targets are met, they will trim their winners and redeploy those proceeds into what their screens and process is telling them are more attractive valuation opportunities at the time. He added that deterioration in either the fundamental and/or business momentum of a particular holding will also be a trigger for selling.

Mr. Ivey reported on the investment performance as of June 30, 2007, stating that while the returns The Boston Company generated are attractive, they have underperformed their mandate (MSCI EAFE + Canada) since inception. However, over 10 years the strategy has generated value in 7 of those years, which validates the firm's process and philosophy.

Mr. Henry discussed the market environment and why there has been underperformance in the last couple of years. He also reported the firm is overweight in Japan and the U.K., but underweight in Canada and Australia.

President Romero requested the firm include a net of fees in their reports. He noted that one of The Boston Company's investment objectives is to outperform the index after a full market cycle. He then inquired what the firm uses to determine the start and end of a market cycle and how the Board members can determine the firm is meeting their objectives. Mr. Henry responded that if President Romero had asked this question at the beginning of the mandate then he would have said that a three to five-year period is normally a typical cycle. He indicated that the firm is coming up on two and half years and have continued to underperform. Mr. Henry explained that it has been a very elongated market cycle and the part of the market cycle that is generally the most challenging is year five of basically a 25% annualized return type of markets. He stated that it is difficult to determine when this will shift, but the time will come when there will temporarily be either flatter market or an extended down market. Mr. Henry indicated there has only been one economic cycle since the Board hired the firm, which is basically a very strong GDP growth. After a point in time where there is either slowing GDP growth or potentially a recession can you evaluate over the full market cycle. Mr. Ivey explained that a cycle is a wave and that any point you would pick on that wave as it goes from up cycle peak to down trough and back up to where it began is truly the definition of a cycle. He stated that he would argue that the last five years has only been a portion of a cycle.

The Board thanked The Boston Company representative and they left the meeting.

3. Discussion of review of plan provisions pertaining to Death Benefits and possible action

Commissioner Hogan-Rowles arrived to the meeting at 11:00 a.m.

President Romero indicated that Item 3 was for informational purposes only. Mr. Vazquez referred to DWP's Lifetime Monthly Survivorship and inquired what was meant by "100% of member's reduced allowance". Ms. Bhatia responded that this was referring to the survivorship benefits that the spouse of a member who dies on active duty is entitled to. She stated the word "reduced" refers to the fact that it is an "Option D" that is used to compute the allowance and then "Option D" is reduced from the full computation.

Mr. Moore inquired what Tier 5 under Fire and Police Pension meant. Ms. Higgins explained that Tier 5 was created approximately 5 years ago. All new employees of Fire and Police entered Tier 5. Members from the other tiers were allowed to opt into Tier 5, and to her understanding, 85% to 90% of the members are currently in Tier 5.

4. Presentation of annual actuarial valuation of the Retirement Fund as of June 30, 2007 by Buck Consultants, discussion, and possible action

Ms. Bhatia informed the Board members that revised information regarding Item 4 had been distributed.

Messrs. Kai Petersen, Principal, Harold Loeb, Principal, and Paul Obedencio, Senior Consultant of Buck Consultants approached the Board table. President Romero recognized the Buck Consultants representatives.

Mr. Petersen provided a list based on the valuation results. Mr. Peterson stated that overall the Plan's investment portfolio was very good in terms of outperforming the actuarial assumed rate of return. However, he could not speak to the various benchmarks the investment managers are targeting. He stated, from the actuarial standpoint, they assume an 8% investment rate of return and this was exceeded. Mr. Petersen reported the Plan's funded ratio was stable and increased slightly, and the contribution looked relatively stable also. Mr. Petersen pointed out changes in the recommended contribution in both percentage of pay and in dollars. Overall the recommended contribution as a percentage of pay decreased slightly by .66% and increased as a dollar amount. However, since payroll increased also then the net affect was a slight decrease as a percent of pay. Mr. Petersen reported on the demographic impact, stating there was a decrease in the contribution of approximately .55% of payroll. The overall impact of the assumption changes was a slight increase of .24% of payroll for the contribution. President Romero inquired if the funding status of the Plan plays into the contribution and, if so, to what extent. Mr. Petersen responded in the affirmative, adding that there are two main components that go into the contribution and one is related to the funding levels.

Mr. Vazquez inquired if the Board can adopt the study without a resolution and about the purpose of Resolution 08-20 included in the Board package. Ms. Bhatia responded that the resolution authorizes the Retirement Plan Office to begin billing the Department at the newly adopted recommended rate. She explained that in the past the study was adopted by a motion and a resolution was brought back before the Board. Ms. Bhatia informed the Board that the report needed to be adopted, as well as the recommendation of the new contribution rate.

Mr. Canzano inquired, for clarification, if the Board passed Resolution 08-20 if the retirement fund would request less money as a percentage of payroll than it did last year. Ms. Bhatia responded that the percentage is less, but the dollar amount is more because the payroll went up. Consequently, the recommended dollar amount of contribution is $144 million compared to $141 million last year. Even though the contribution rate is lower, the base on which it is applied is larger. Mr. Canzano expressed that he was not satisfied that he is seeing on paper what he is referring to. He stated it was possible that this could be because when the resolution was made last year it was possibly not as a percentage of payroll and was a dollar amount. Mr. Canzano further expressed that he was still not comfortable on the proposed reduction based on what he recalls from last year. Ms. Bhatia inquired if Mr. Canzano was referring to the pages that were just distributed. Mr. Canzano responded in the affirmative. Ms. Bhatia clarified that the three scenarios being referred to pertain to the disability valuation report. Mr. Canzano stated that he did not believe what he is referring to dealt with disability at all. Instead, it dealt with the Department's contribution to the Retirement Plan for funding the Plan. He stated he was clear that there was more than one choice. He stated he specifically remembered Mr. Vazquez's vote in the affirmative for the higher of the two choices. Ms. Bhatia clarified there were three rates and there was discussion on whether to go with the middle rate or the highest rate of $1.55 per $100.00 of contribution, and the Board decided to go with the highest rate and the shortest time period to fund the reserve. Ms. Bhatia informed the Board members that if the resolution was not adopted today then it would be brought back and the Department could not be billed until there is an action from the Board. In the meantime, the Department would be billed at the lower amount of $141 million for the year. Mr. Moore asked Mr. Vazquez if the vote was delayed would it impact the schedule of closing the financial books. Mr. Vazquez responded that it would, adding that he was comfortable with the report. He stated last year's discussion regarding the alternative investments referred to the handout as opposed to the recommended contribution rate, which is a calculated figure.

Ms. Higgins indicated there were several changes to the resolution due to feedback from the City Attorney's Office. The third paragraph starting with "WHEREAS" would be changed to begin with "THEREFORE, BE IT RESOLVED, that the Board hereby adopts the June 30, 2007 . . . . . ". The next paragraph would be changed to "BE IT RESOVED FURTHER, the Retirement Plan Manager . . . ."

Mr. Vazquez moved adoption of the amended Resolution 08-20. Seconded by Commissioner Hogan-Rowles and carried after the following vote:

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

5. Retirement Plan Manager's Comments
   a) DWP Plan Newsletter for Retirees (October 1, 2007)
   b) General Items

Ms. Carranceja reported that staff visited the Los Angeles County Employee Retirement Association and learned a lot about their implementation of File Net. She stated they are planning on another visit to look at their operations, see how they scan documents, look at their indexing capabilities, and how they assign individuals. Ms. Carranceja also reported that the specification for functional items such as calculating domestic relations and orders is almost complete. She stated they are now focusing on the specifications for creating reports.

Ms. Bhatia stated there was information requested at the last Audit Committee meeting and it was indicated that a meeting was not necessary to discuss the fees proposed by Macias, Gini, & Co in connection with the audit of the health fund. Staff asked Macias, Gini, & Co for a breakdown and the fee that had been approved at the last meeting was approximately $31,000. Macias, Gini, & Co came back with a reduced fee of $27,000, indicating they had made an error in their rate. Ms. Bhatia announced that a handout was distributed among the Board members explaining this and provides the breakdown of hours.

Ms. Bhatia reported that JP Morgan had just been funded for the strategic property trust fund that had been selected months ago.

Ms. Bhatia stated the review of the documents for CB Richard Ellis will begin and Mr. Palmer is currently soliciting bids from two attorney firms that have expertise in real estate documents.

Ms. Bhatia informed the Board that the annual audit report by Macias, Gini, & Co is expected to be presented at the next meeting or the first meeting in November.

Ms. Bhatia indicated she previously mentioned a management audit by the City Controller's Office. She explained that this was an audit that is mandated under the new 2000 City Charter to be performed every five years. She stated there was an RFP currently out to select an auditor for this, which closes on November 9, 2007.

Ms. Bhatia reported that Rhoda Lukjaniec, the Utility Administrator in the Retirement Office, accepted a promotional opportunity in Purchasing and the Retirement Office is in the process of filling that position. Commissioner Hogan-Rowles inquired if there were any other staffing issues within the Retirement Office that needed to be addressed. Ms. Bhatia responded that besides the position mentioned there are a couple of clerical positions that need filling and there are issues regarding absenteeism. Ms. Higgins added that as the computerized system progresses and the changes are realized, Ms. Bhatia has staff estimating what kind of organizational changes will be needed. Commissioner Hogan-Rowles requested that the Board be informed if there is anything they can do to assist.

6. Future Agenda Items

There were no future agenda items discussed.

7. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9 – Conference with Legal Counsel and possible action with regard to joining other public retirement systems in Amicus Curiae brief in California Supreme Court Appeal of decision in *LEXIN ET AL. V. SUPERIOR COURT OF SAN DIEGO COUNTY (NO. D049251)*

The Board members moved to a conference room to discuss the closed session item.

President Romero announced that the Board has given approval to its legal counsel to join other public retirement systems in entering the Lexin versus the Superior Court of San Diego County as Amicus Curiae.

The Board meeting was adjourned at 12:21 p.m.

JAVIER ROMERO President	SANGEETA BHATIA Secretary

IRENE COLON GONZALEZ
Recording Secretary