

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

MINUTES – December 5, 2007

Present:

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

Absent:

H. David Nahai	Chief Executive Officer and General Manager
Forescee Hogan-Rowles	Commissioner

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
Sarah Bernstein	Pension Consulting Alliance
Pam Alsterlind	Partners Group
Eliza Bailey	Partners Group
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 10:00 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Mr. David Malacek, from the Bank of New York, Global Transition Management, approached the podium. President Romero recognized Mr. Malacek.

Mr. Malacek informed the Board members that he would be relocating to Texas and a couple of other states for BNY Transition Management and that Terri Noble Grum would be his replacement.

President Romero introduced a new Retirement Office employee, Joy Law, Utility Accountant, and acknowledged the promotions of Ed Valbuena and Devika Nair to

Senior Utility Accountant .

- 1. Approval of Board Minutes:**
 - a) September 19, 2007 (Regular Board Meeting)**
 - b) October 3, 2007 (Regular Board Meeting)**
- 2. Termination from Monthly Rolls as of November 2007**
 - Retirement Resolution for November 2007**
 - Resolution terminating Diane S. Lemle from the March 2007 Permanent Total Disability Roll**
 - Resolution terminating Arlene Keithe from the November 2007 Permanent Total Disability Roll**
 - Resolution terminating the following from the December Family Death Benefit Roll: Henry Araujo, Ryan Hernandez, Terrace Hughey (attained 18 years of age), Cynthia S. Hernandez (child attained 18 years of age)**
 - Resolution terminating Mari Tackett from the October Family Death Benefit Roll (remarried on 10/6/07)**
 - Resolution appointing Mari Tackett-Rice as trustee of Katelin Tackett and Grant Tackett, children of Mike Tackett, deceased**
 - Resolution terminating Lois E. Muldoon from the December 2007 Survivorship Roll as a result of her death**

Mr. Canzano moved adoption of the above items 1 and 2 on consent. Seconded by Mr. Moore and carried unanimously after the following vote:

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

- 3. Report of Payment Authorizations as of October 2007**
- 4. Notice of Deaths for October 2007**
- 5. Report on Status of Insurance as of November 30, 2007**
- 6. Divestment from Companies Doing Business In Iran**
 - a) Letter from Mayor – “Divestment of Foreign Companies Doing Business with Iran’s Energy, Defense, or Nuclear Sectors”**
 - b) Staff Information Memo – “Informational Report on Iran Divestment and Update on the Companies Regarding their Holding in Iran**
- 7. Summary Investment Returns as of October 31, 2007**
 - a) Market Value of Investment by Fund and Month as of October 31, 2007**
 - b) Market Value of the Retirement, Death & Disability Funds and Retiree Health Care Fund as of October 31, 2007**
 - c) Investment Returns as of October 31, 2007**

Mr. Moore moved that the above items 3 through 7 be received and filed. Seconded by

Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Vazquez, Canzano, and Moore

Nays: None

8. Annual Performance Review Presentations as of September 30, 2007 for Hedge Fund of Funds

a) Aetos Capital

Mr. Michael Klein, Managing Director, and Ms. Andrea Bollyky, Managing Director, of Aetos Capital, LLC approached the Board table. President Romero recognized the Aetos representatives.

The Aetos representatives presented the Board members with their annual performance review as of September 30, 2007.

Mr. Moore requested the Aetos representatives characterize the changes they have made in the portfolio as a whole with respect to the amount of leverage overall that exist and the liquidity issues that were causing problems for Sowood. Mr. Klein stated that the Sowood holding is no longer in the portfolio, and Aetos had received half of their money back and has reinvested it. He continued, the overall leverage in DWP's portfolio is approximately 1.2 times levered. Mr. Klein explained that the firm carefully risk budgeted the amount of leverage they wanted to have in the portfolio because leverage is the sort of the thing that you can lose control of when unexpected things go against you. He stated the firm also reduced leverage through a quantitative equity manager who follows a complex model. Mr. Klein indicated that the only place leverage exists is with managers in distress.

Mr. Moore inquired, to what extent have there been other liquidity issues because there have been a lot of problems in the credit markets as a whole. Mr. Klein agreed there have been a tremendous amount of problems in the credit markets, but not in Aetos's portfolio.

Mr. Moore requested the representatives characterize the portfolio in terms of the extent to which it is a "true short" as opposed to a "hedged short". Mr. Klein responded that the shorts in the equity space are approximately 70% true shorts, in that the managers perform specific research on individual companies and are shorting those companies based on their view of the prospect. He stated 30% of the short positions are just industry sector basket hedges, where it is being utilized to both express a view about the opportunity of a sector and bring the net exposure down. He added that this was mostly accomplished through active fundamental stock selection. Mr. Moore inquired if Mr. Klein were to characterize the entire portfolio, what percentage would be a "true short". Mr. Klein responded approximately 60% short and 110% long. Ms. Bollyky explained that Aetos is trying to invest with managers that are actually hedged as opposed to having that market exposure, while keeping with the thought that the investment's purpose is to diversify away from the traditional allocations. Mr. Klein stated that, in general, the portfolio has gross exposure of about 100% long and is gross short 60%, which leaves the portfolio 40% long on a net basis.

The Aetos representatives left the Board room.

b) Pacific Alternative Asset Management Company (PAAMCO)

Mr. Jim Berens, Managing Director and Ms. Dorothy Walsh, Manager, of Pacific Alternative Asset Management Company approached the Board table. President Romero recognized the PAAMCO representatives.

The PAAMCO representatives provided the Board members with their annual performance review presentation as of September 30, 2007.

Mr. Moore requested the representatives characterize credit hedging, what it consists of, and the extent to which it is truly hedged as opposed to the firm taking a position because they feel the market has not gone right. Mr. Berens expressed that Mr. Moore's question was a really tough one to answer, even with his PhD in finance and he had given it thought when Mr. Moore asked it of Aetos. He stated he could not really answer it any better than Aetos did. However, similar to Aetos, PAAMCO prefers hedge fund managers to try to make money on both sides of the longs and the shorts, which means you have two separate and somewhat independent bets. In a strict sense you are not really hedged. However, to counteract that, the firm invests with 55 hedge fund managers and is spread all across the globe and across 8 discreet strategies. Mr. Berens informed Mr. Moore that credit hedging did not have a specific meaning.

Mr. Moore requested the PAAMCO representatives characterize the portfolio in terms of the extent to which it is a "true short" percentage of the overall portfolio. Mr. Berens responded they were approximately 60% true short and 20% hedge shorts.

Mr. Moore inquired how much leverage was being applied. Mr. Berens responded it was approximately 1.3 times levered, which has come down a bit over the last 3 or 4 months.

The PAAMCO representatives left the Board room

9. Resolution Granting Consent to the Assignment of Aetos Limited Partnership Agreement in Connection with Transfer of ownership interest and possible action

Mr. Vazquez moved the approval of Resolution 08-31. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Vazquez, Canzano and Moore

Nays: None

10. Presentation and discussion of the annual actuarial presentation of the Death Benefit Fund for Fiscal Year ending 2007 and possible action

Mr. Harold Loeb, Principal, and Mr. Paul Obedencio, Senior Consultant, of Buck

Consultants approached the Board table. President Romero recognized the Buck Consultants representatives.

The Buck consultants provided the Board with a presentation of their annual actuary presentation of the Death Benefit Fund for the fiscal year ending June 30, 2007.

Ms. Higgins informed the Board members that staff reviewed the report and recommends adoption and the funding as recommended by the actuary.

Mr. Moore moved for the adoption of Resolution 08-32. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Coffin, Vazquez, Canzano and Moore

Nays: None

11. Presentation and discussion of the annual actuarial presentation of the Disability Fund for Fiscal Year ending 2007 and possible action

Mr. Loeb and Mr. Obedencio of Buck Consultants, already seated at the Board table began their presentation on the Disability Fund.

Ms. Higgins provided the Board with a summary of the Disability Benefit Funds. She indicated this was the first time the valuation was being performed on an annual basis and the first time insured lives for retirees is being reported under Government Accounting Standards Board (GASB) requirements. Ms. Higgins informed the Board that part of Resolution 08-32 includes adoption of the GASB reports prepared by Buck Consultants. Ms. Higgins explained that the disability fund is the umbrella fund for the temporary and extended temporary disability and for the permanent total disability benefits (PTD). She stated the PTD is way over its reserve target and the temporary and extended temporary disability funds are below its target. The Board adopted a target funding for the two funds a couple of years ago, wanting to bring the reserves up to funding levels by the end of the 2008 fiscal year. Buck has computed the cost for accomplishing this and, in addition, suggested a couple of alternatives the Board may want to consider. Ms. Higgins informed the Board that staff is recommending the adoption of Buck Consultant's report, but has left the decision of which recommendation to adopt, up to the Board

The Buck consultants provided the Board with a presentation of their annual actuary presentation of the Disability Fund for fiscal year ending 2007.

Mr. Vazquez moved for the adoption of the recommendation to increase the contribution from \$1.55 to \$2.18. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Vazquez, Canzano and Moore

Nays: None

The Buck Consultant representatives left the Board room.

12. Annual Review of Real Estate Program by PCA Real Estate Advisors, Inc. – Discussion and Possible Action

Ms. Pam Alsterlind, Vice President, and Ms. Eliza Bailey, Vice President, of Partners Group Real Estate, LLC, approached the Board table. President Romero recognized the Partners Group Real Estate representatives.

Ms. Alsterlind announced that on July 2, 2007, PCA split into two separate firms, with Neil Rue and Sarah Bernstein remaining at PCA and her at PCA Real Estate Advisors (aka Partners Group Real Estate). She also informed the Board that Mr. Paul Mouchakkaa accepted a position at CALPERS in their real estate investment office.

The PCA Real Estate Advisors representatives presented the Board with an annual review of their real estate program.

The PCA Real Estate Advisors representatives left the Board room.

President Romero called for a lunch break at 12:07 p.m.

The meeting of the Board reconvened at 12:51 p.m.

Mr. Ronald Vazquez did not return for the afternoon session of the Board Meeting.

Item 19 was taken out order.

19. City Attorney Report on RFP for Securities Litigation and Monitoring and Possible Action

Attorney David Michaelson, Chief Assistant City Attorney, and Mr. Alan Manning, Assistant City Attorney of the City Attorney's Office approached the Board table. President Romero recognized the City Attorney's Office representatives.

Attorney Michaelson stated he was present to address the Board on the issue of selection of a panel of outside counsel law firms to assist the DWP retirement system, when investment losses have occurred and there lies an opportunity to recoup those losses from firms that are responsible. He stated that approximately a year ago the City Attorney's Office recognized that many government pension systems around the country utilized the services of outside counsel law firms who have unique expertise and experience in dealing with securities losses. Attorney Michaelson reported that a Request for Proposal (RFP) had been issued after contacting the three City Pension Plan managers. Proposals were received earlier this year and a review process was developed, which included the General Managers and Assistant General Managers of the three Pensions Plans to join the City Attorneys on the evaluation panel. He added that there were only about a dozen firms around the country specializing in this specific area of law. Attorney Michaelson reported that it was agreed that five firms be recommended and placed on a panel to receive contracts for all 3 pension plans.

Ms. Bhatia inquired if the DWP Retirement Board was bound to stick to the panel of five firms. Attorney Michaelson responded that the Board will always retain the flexibility to select a firm that is not on the panel.

President Romero expressed a concern with Grant & Eisenhofer being among the five firms selected due to a conflict of interest.

Mr. Canzano moved for the approval of the four firms recommended, excluding Grant & Eisenhofer due to a potential conflict of interest. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Vazquez, Canzano and Moore

Nays: None

The representatives from the City Attorney's Office left the Board meeting.

13. PCA's Quarterly Performance Review as of September 30, 2007

Ms. Sarah Bernstein of Pension Consulting Alliance approached the Board table. President Romero recognized Ms. Bernstein.

Ms. Bernstein provided the Board members with PCA's quarterly performance review as of September 30, 2007.

Mr. Rob Harkins of the Boston Company approached the podium. President Romero recognized Mr. Harkins.

Mr. Harkins provided the Board with a brief update on performance, quarter to date, for developed markets and then returned to the audience.

14. Discussion of PCA's Recommendation to Place Enhanced Investment Management LLC (INTECH) Large Cap Growth Equity Manager on Watch Status and Possible Action

Mr. Canzano moved for the approval of Resolution 08-34 to place INTECH on watch status. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Vazquez, Canzano and Moore

Nays: None

15. Discussion of Pension Consulting Alliance's (PCA) Recommendation to Extend the Contract with The Boston Company International Developed Equity Investment Manager and Possible Action

Mr. Canzano moved for the approval of Resolution 08-35 to extend the contract with The Boston Company International Developed Equity investment manager. Seconded by Mr. Moore and carried unanimously after the following vote:

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

16. Review of Watch Status of Earnest Partners LLC Small Cap Value Equity Account by Pension Consulting Alliance (PCA) and possible action

Mr. Canzano moved for the approval of Resolution 08-36 to extend the watch status of Earnest Partners LLC Small Cap Value Equity Account. Seconded by Mr. Moore and carried unanimously after the following vote:

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

17. Resolution Granting Consent to the Amendment of Restated Agreement of Limited Partnership Agreement with Landmark Equity Partners XIII, L.P. and possible action

Mr. Canzano moved for the approval of Resolution 08-37, granting consent to the amendment of restated agreement of limited partnership agreement with Landmark Equity Partners XIII, L.P. Seconded by Mr. Moore and carried unanimously after the following vote:

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

18. Discussion of Staff recommendation to extend the contract with Mellon Trust of California as Custodian to December 31, 2010 and possible action

Mr. Canzano moved the adoption of Resolution 08-38 to extend the contract with Mellon Trust of California as custodian to December 31, 2010. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Item 19 was taken out of order.

20. Retirement Plan Manager's Comments

- a) **DWP Plan Newsletter for Retirees (November 1, 2007)**
- b) **DWP Plan Newsletter for Retirees (December 1, 2007)**
- c) **General Items**

Ms. Bhatia mentioned that under item 6 a letter was included from the Mayor's Office, and since then, staff had received a request from the Board of Commissioners to provide a status and update with respect to Iran divestments. Ms. Bhatia indicated that

she and Mr. Palmer attended the Board of Commissioners meeting and she presented a summary. Ms. Bhatia reported that staff also prepared a letter, which was signed by President Romero and submitted to the Mayor letting him know that we are in receipt of the letter from him and the steps we have taken so far. She added that the Board members will be receiving copies of the letter. She said a Governance Committee meeting is planned for December 19, 2007 to discuss the issue further and provide the Board any updates.

Attorney Wilkinson stated, with regards to the resolution, we were lucky enough to have the cooperation of Richard Brown (legal advisor to DWP). Attorney Wilkinson indicated that Mr. Brown and Mr. Wyatt assisted in adding a very important paragraph, which clearly sets forth the DWP Retirement Board's prerogatives on the Iran issue. He indicated that the suggestions they made greatly improved and reasserted the importance of the constitutional prerogatives of the DWP Retirement Board.

Ms. Bhatia reported that, regarding personnel changes, the process had been completed for hiring a Utility Administrator, Veronica Mendez, who currently works in the EEO office. She also announced that Irene Colon Gonzalez and Earnestine Howard are retiring.

Ms. Bhatia reported that she and the management in the Retirement Office have been examining ways of improving the productivity, efficiency, and customer service. She stated they are looking at implementing new service hours that would be publicized in the Contact and other forms of information. Ms. Bhatia stated that the office hours will be changed to 7:00 a.m. to 3:00 p.m. for walk-in members, with a commitment to return any messages within 24 hours, beginning February 1, 2008.

Ms. Carranceja reported that progress has continued with the new computerized system. She stated that JEA has completed construction of 5 components in the active member portion of the system and this portion would be implemented around May of 2008. JEA is planning to work on the retirement portion, which will be replacing the Retired Automated Pension System (RAP). JEA indicated they will be coming to the Retirement Office in January of 2008 to sit with subject matter experts to gain more knowledge about RAP in order to complete the specifications. Ms. Carranceja expressed that staff is extremely pleased with JEA's work because they are very thorough and have a complete understanding of the Plan.

Ms. Carranceja reported that the Systems group has provided payroll files to rebuild service records of members. She stated that staff has been working with Payroll and Human Resources and have developed a very good working relationship with those two system leaders, and they indicated that they will help to streamline the process. Ms. Carranceja pointed out that the Membership Section used to enter data into two systems and will now only have to enter into one, which will make operations more efficient.

President Romero inquired if the timeline for implementing the system was still on target. Ms. Bhatia responded in the affirmative.

Ms. Bhatia requested that one Board meeting be held in January due to the holiday and because of limited staff available to prepare Board packages. The Board agreed to have just one meeting on January 16, 2008.

21. Future agenda items

Mr. Canzano requested that staff look into when benchmarking is really appropriate and when an absolute return strategy may be wiser. He also mentioned that other plans have air time, which allows employees to purchase up to five years of service credits from the Plan. He requested staff look into what feasibility there was for DWP to have this option implemented. Attorney Wilkinson advised the Board that this would have to be a meet and confer issue.

The Board meeting was adjourned at 1:58 p.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON GONZALEZ
Recording Secretary