

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

**MINUTES – December 19, 2007**

**Present:**

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

**Absent:**

David H. Nahai	General Manager
Forescee Hogan-Rowles	Commissioner

**Others Present:**

Sangeeta Bhatia	Retirement Plan Manager
Mary Higgins	Assistant Retirement Plan Manager
Ramonette 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
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:55 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.

- 1. Approval of Board Minutes of October 17, 2007 (Regular Board Meeting)**
- 2. Termination from Monthly Rolls as of December 2007  
Retirement Resolution for December 2007  
Resolution Terminating Patricia C. McGrath and Beatrice E. Rehor From the  
December 2007 Survivorship Roll as a Result of Their Deaths  
Resolution terminating the following from the January Family Death Benefit  
Roll – Taylor Wielund, Christina Bailey (attained 18 years of age), Debbie L.  
Wiedlund, Hainamouta Bailey (children attained 18 years of age)**

Mr. Moore referred to page 1.2 of the Board minutes and requested that the sentence stating, “Mr. Moore requested that North Pointe provide an explanation . . .” be changed to read, “Mr. Moore requested that Risk Management provide an explanation . . .”

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

Ayes: Romero, Coffin, Moore, Canzano and Vazquez

Nays: None

- 3. Report of Payment Authorizations as of November 2007**
- 4. Notice of Deaths for November 2007**
- 5. Report on Status of Insurance as of November 30, 2007**
- 6. Summary Investment Returns as of November 30, 2007**
  - a) Market Value of Investment by Fund and Month as of November 30, 2007**
  - b) Market Value of the Retirement, Death & Disability Funds and Retiree Health Care Fund as of November 30, 2007**
  - c) Investment Returns as of November 30, 2007**

Mr. Vazquez referred to page 5.1 of the Board agenda package regarding the insurance status for investment managers. He pointed out that under the alternative investments there were two managers reflecting their insurance status as closed. He inquired if there were any particular insurance requirements for this mandate. Ms. Bhatia responded there are slightly different insurance requirements for the alternative investments. Mr. Palmer reminded the Board members that PCA made a recommendation to the Board at the time the alternative investment managers were hired that the insurance requirements should differ from those of standard investment advisors. He stated it is his understanding the Board adopted this recommendation. Mr. Moore stated it was his recollection that the reason the Board did this was because there was not a lot of negotiating position with the hedge fund, private equity funds or real estate investors. Consequently, the Board decided to accept what was offered. However, the insurance status report should reflect what insurance has been provided as opposed to just showing it as closed. Mr. Vazquez concurred with Mr. Moore. Ms. Bhatia responded that according to the insurance policy, some of the managers were requested to provide insurance, but it is not required. She stated if they chose not to provide it they were still in compliance. She added that Risk Management was not in agreement with this. Mr. Vazquez requested more descriptive information for the status report in the future. Mr. Moore inquired if there was an understanding that the Board would accept what insurance the managers offered to everyone else, and not attempt to separately negotiate a tougher package for themselves. Ms. Bernstein concurred that this was the agreement, and as Ms. Bhatia indicated the key language is that it was “recommended” and not “required”.

Mr. Canzano moved that the above items 3 through 6 be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, Canzano and Vazquez

Nays: None

## **7. Summary of Third and Final Session of WPERP Asset Liability Study by PCA and Possible Action**

Mr. Rue provided the Board with a summary of the final session of the Water and Power Employee's Retirement Plan Asset Liability Study. He stated it was PCA's recommendation that the Board adopt one strategic allocation for both the Health Benefits and Retirement Plan. Mr. Vazquez inquired if this meant the same allocation or the ones previously presented because they differ in minor respects. Mr. Rue responded that there was no material difference between the two allocations.

Attorney Wilkinson inquired if the fixed income included the cash. Mr. Rue responded in the affirmative, stating if staff wants to pull out 1% for cash then it would come from the fixed income allocation.

President Romero stated it was his understanding that the two Plans would be tracked separately. Mr. Palmer responded that this has not been established yet and currently everything is set up separately. He stated, the Health Benefits is managed with that particular pot of assets as opposed to commingling them. Mr. Vazquez suggested combining the assets for management purposes with the same managers and accounting for the investments separately on the books. Ms. Bhatia responded that is exactly what is being done. She explained that currently there are two managers being utilized and the assets for investment purposes, and the record keeping of the investment returns is tracked separately. Mr. Moore inquired how staff is accounting for the fact that each fund is going to have a different draw down during the course of the year. Ms. Bhatia responded there are currently separate accounts for record keeping and it is a little less complicated because they are dealing only with two managers. She stated a similar set up will have to be in place in order to keep track of the investment returns, the inflows as well as the distribution. Ms. Bhatia continued, this set-up would be in line with the Plan amendment that was adopted. She added that this set up would be accomplished through Mellon.

Mr. Mike Ferguson of BNY/Mellon approached the podium. President Romero recognized Mr. Ferguson. Mr. Ferguson informed the Board that Mellon currently reflects the pool separately based on the needs, and the managers manage the money in two separate accounts; however, they view them as one portfolio. He stated that as they expand they will attempt to do the same thing with all of the managers that are put in place across the board. President Romero inquired as to whether Mr. Ferguson could foresee any problems with the expansion. Mr. Ferguson responded there could possibly be some problems, but they would discuss it with staff first and try to resolve them before presenting them to the Board. President Romero expressed that all problems needed to be resolved before moving any funds. Ms. Bhatia indicated that more accounts would have to be set up. Mr. Ferguson stated there should not be much of a difference from what was currently in place. Mr. Rue informed the Board that if they adopted the liability study, then the investment decisions made will be for one big portfolio.

Mr. Rue reminded the Board that to arrive at the current policy allocation they had to go through the process of defining what their risk tolerance is and, consequently, the Board has a precise definition that is measurable and can be referred to for future needs.

Mr. Rue noted that the Board adopted a policy allocation for the Retirement Plan and they needed to adopt the same allocation for the Health Benefit Fund. He stated the question is how to get there. He further stated there is a significant amount of change that is being proposed and he recommended an evolving policy to resolve this.

Mr. Vazquez inquired if new classes needed to be developed, as well as the modification of existing investment policies for other classes. Mr. Rue responded in the affirmative. Mr. Vazquez inquired about the timetable for accomplishing this. Mr. Rue responded that a timetable had not been established, but it would be a priority task to be executed during the first quarter.

Mr. Vazquez moved the adoption of the summary of the third and final session of WPERP Asset-Liability study. He requested to see it in the form of a resolution at the next Board meeting. Mr. Vazquez suggested the item be placed as an agenda item so the Board can adopt the allocations for both funds in going forward, based on PCA's recommendation and reports.

President Romero requested staff provide a detailed plan as money begins to move around. He noted there is an active list of transition managers, and inquired if the Board would be reviewing pre-trade analysis before making a decision. Ms. Bhatia responded in the affirmative.

Ms. Bhatia inquired of Mr. Rue, with regards to the international equity, would he be providing a breakdown as far as emerging markets, developed markets, etc. Mr. Rue responded that on the international side it would be consistent with the current benchmarks. Ms. Bhatia inquired, as far as the increase in the allocation, was PCA recommending an increase in emerging markets or would it be consistent with the breakdown currently in place. Mr. Rue responded it was consistent with the current benchmark. He stated, with respect to International Equity, all of the managers would be funded consistent with the market allocations of the current benchmark.

President Romero requested Mr. Rue address the global asset allocation issue. Mr. Rue stated there was a 40% allocation to U.S. Equity and a 15% allocation in non U.S. equities. He explained that for every \$4 you put into U.S. equities you are putting \$1.50 into international with a 3 to 1 ratio. Mr. Rue stated that the Board adopted a policy going to 34% in non-U.S. equities and 24% in U.S. equities, which would double the proportional allocation to international equity. Consequently, the exposure within the public equity asset class is going to jump significantly. Discussion regarding global asset allocation continued.

Ms. Bhatia requested a projection of investment returns that the new policy allocation will produce. Mr. Rue responded that PCA would be happy to produce those numbers. Attorney Wilkinson inquired if these numbers would change the first of the year or would they be phased in quarterly in terms of the year-to-year. Mr. Rue responded that it would not be quarterly because this would cause the numbers to be

overly precise. He stated that after funding the real estate or private equity there is a possibility of it appreciating or depreciating much faster than planned. In this case, PCA would inform the Board they are ahead of schedule and would suggest revising it.

Mr. Rue recommended the resolution include the evolving policy. Ms. Bhatia stated that staff would bring the report back with the resolution incorporated so that the Board knows exactly what they are adopting.

President Romero indicated that at some point he would like to revisit the emerging manager women owned business issue and study it at length. He stated that LACERS successful emerging manager program was discussed a long time ago; however, at that time the DWP Retirement Board was transitioning and moving a lot of money.

#### **8. Discussion of Recommendation to Extend the Contract with T. Rowe Price Trust Company (International Equity Emerging Markets Manager) and Possible Action**

Mr. Palmer stated that Item 8 involved the normal due diligence review process for extending a manager's contract every three years. He explained that staff conducts a due diligence process, queries the manager, and in this case completed an onsite visit. Mr. Palmer reported there were no significant or material changes and there is nothing to be concerned with. He stated the firm's performance has been outstanding and staff recommends extending T. Rowe Price's contract for another three years.

Mr. Vazquez moved the approval of Resolution 08-42. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, Canzano and Vazquez

Nays: None

#### **9. Discussion of RFP's for the Board's Private Equity Consultant and Real Estate Consultant and Possible Action**

Mr. Palmer reported a significant change in the structure of PCA in that their real estate portion of the firm was purchased by Partners Group (a Swiss-owned firm). Mr. Palmer stated that staff was recommending separate searches be conducted for general, real estate, and Private Equity consulting. Ms. Bhatia indicated that the Board members were sent draft copies of the Request for Proposals for the Real estate and private equity consultants. She informed the Board that the PCA contract expires toward the end of May 2008.

After some discussion, Mr. Vazquez recommended issuing RFPs at the same time for consultants in the three specifically defined areas so they can be bid on separately or together.

**10. Discussion to Approve Contract Extensions with Nossaman Guthner Knox Elliott LLP and Foster Pepper PLLC for an Additional Year to Provide Real Estate and Alternative Investment Outside Legal Counsel and Possible Action**

Mr. Vazquez moved for the approval of Resolution 08-43 approving contract extensions with Nossaman Guthner Knox Elliott LLP and Foster Pepper PLLC for an additional year to provide real estate and alternative investment outside legal counsel. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

**11. Discussion to ~~Extend the Contract~~ Approve the Invoice from Morrison and Foerster LLP for Outside Counsel Fiduciary Advice Previously Provided with the City Attorney's Approval, but Performed Before the Effective Date of the Current Contract and Possible Action**

Mr. Moore moved for the approval of Resolution 08-44 to approve the invoice from Morrison and Foerster LLP, for outside counsel for fiduciary advice previously provided with the City Attorney's approval, but performed before the effective date of the current contract. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

**12. Discussion to Approve Contract Extension with Morrison and Foerster and Klausner and Kaufman to Provide Fiduciary Counsel**

Mr. Canzano moved approval of Resolution 08-45 to extend the contract extension with Morrison and Foerster and Klausner and Kaufman. Seconded by Ms. Coffin and carried unanimously after the following vote:

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

**13. Communication from the City Attorney to Approve Continuing Membership in the National Association of Public Pension Attorneys (NAPPA) for Michael R. Wilkinson and Possible Action**

Mr. Canzano moved to approve the continuing membership in the National Association of Public Pension Attorneys (NAPPA) for Michael R. Wilkinson . Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, Canzano and Vazquez

Nays: None

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

Ms. Bhatia reminded the Board there would be only one Board meeting for the month of January, scheduled for January 16, 2008. Ms. Colon announced that the Board room would be closed for construction and the Board members would be notified with the alternate site for the meetings.

Ms. Bhatia reported that the Retirement Office staff is busy with the processing of the 1099R's and hopefully the Board will be provided with a positive update at the next Board meeting.

Ms. Carranceja informed the Board, with regards to the implementation of the new computerization system, seven functionalities have been constructed, which is great progress. She stated that currently staff provides two types of communications to members, the benefits booklets and the membership statements, which would be consolidated with the new system.

#### **15. Items of Interest**

##### **Article in Pensions and Investments on U.S Pension Plans adding "Real Assets" to Their Allocation Mix**

#### **16. Future agenda items**

Ms. Bhatia indicated she had a few items to place on the next Audit Committee agenda, specifically related to the process and evaluation of the actuarial consultants and auditors.

President Romero requested an update on the issues transpiring with the Audit Committee be placed on the agenda under "Manager's Comments" for the next Board meeting. Ms. Bhatia stated she could provide a summary right now and reported that there was discussion regarding the audit reports, which did not include the auditor's opinion. She explained the reason provided for this was that the retirement plan management had not signed the representation letter, and had not seen a draft of the report previous to today. Ms. Bhatia reported that the final financial statements were provided this morning to the Audit Committee and will be submitted to the Controller's Office. She stated staff will be expediting the signing of the management representation letter and submitting it.

Ms. Bhatia indicated another update would be provided at the next Audit Committee Meeting when the auditors will be discussing the management letters which outlines any weaknesses in internal controls as far as the assessment of the audit process. President Romero inquired if there were any performance issues with the auditors and how long is the contract. Ms. Bhatia responded that it is a three-year contract and we are presently into the second year. She stated there are definitely issues staff is concerned with, such as timeliness, follow up, and the lack of organization on the part of

the auditors. She added she would be bringing these issues to the Audit Committee as an agenda item for discussion.

The Board meeting was adjourned at 11:34 p.m.

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JAVIER ROMERO  
President

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SANGEETA BHATIA  
Secretary

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IRENE COLON GONZALEZ  
Recording Secretary