

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

MINUTES – March 19, 2008

Present:

Javier Romero	President
Michael Moore	Retiree Member
Cindy Coffin	Board Member
Eugene K. Canzano	Board Member

Absent:

David H. Nahai	General Manager
Forescee Hogan-Rowles	Commissioner
Ron Vazquez	Chief Financial Officer

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Mary Higgins	Assistant Retirement Plan Manager
Ramonette Carranceja	Assistant Retirement Plan Manager
Jeremy Wolfson	Senior Investment Officer
Julie Escudero	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 9:40 a.m. after the Pledge of Allegiance.

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

President Romero welcomed new employee Julie Escudero as the new Utility Executive Secretary and Recording Secretary to the Board.

PUBLIC COMMENTS

There were no public comments.

1. Approval of Minutes

a) Approval of Minutes of the Governance Committee of March 5, 2008

Ms. Bhatia noted a correction in the Minutes on page 1.1 in the last paragraph to omit the repetition of the word "Attorney".

**2. Termination from Monthly Rolls as of March 2008
Retirement Resolution for March 2008**

Resolution Appointing Debora Bowen as Trustee to Minor Child Naomi Wilson

Resolution Terminating Velma E. Young from the March 2008 Permanent Disability Roll (Deceased)

Resolution Terminating Lucille Bingham and Clara Campiran from the March 2008 Survivorship Roll (Deceased)

Resolution Terminating Alejandria Torres from the March 2008 Family Death Benefit Roll (attained 18 years of age)

Resolution Terminating Christopher Shavely from the April 2008 Family Death Benefit Roll (Attained 18 Years of Age)

Resolution Appointing Francine Sylvia as Trustee for Danielle E. Wilson, Disabled Adult

Mr. Canzano moved adoption of the above items 1 and 2 with the requested change to the Minutes. The motion was seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

3. Report of Payment Authorizations as of February 2008

4. Notice of Deaths for February 2008

5. Report on Status of Insurance as of March 11, 2008

6. Summary Investment Returns as of February 29, 2008

a) Market Value of Investment by Fund and Month as of February 29, 2008

b) Market Value of the Retirement, Death & Disability Funds and Retiree Health Care Fund as of February 29, 2008

c) Investment Returns as of February 29, 2008

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

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

7. Discussion of Recommendation to Remove Pyramis, International Developed Market Investment Manager from Watch Status and Possible Action

Mr. Canzano motioned for approval of Resolution 08-71 to remove Pyramis, International Developed Market Investment Manager from the watch status list. The Motion was seconded by Mr. Moore and carried unanimously after the following vote:

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

8. Discussion of Recommendation to Extend The Boston Company, Emerging Market, Investment Manager Watch Status and Possible Action

Mr. Moore motioned for approval of Resolution 08-72 to extend The Boston Company, Emerging Market, Investment Manager watch status. The Motion was seconded by Ms. Coffin and carried unanimously after the following vote:

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

9. Annual Review of PCA's Domestic Equity Policy Structure Recommendations –Discussion and Possible Action (Continued from February 20, 2008 Regular Board Meeting)

President Romero recognized Mr. Neil Rue from PCA. Mr. Rue introduced this item and explained that the Board, at its meeting of February 20, 2008, asked for a further analysis of PCA's recommended shift from the current 50% active/50% passive structure to a 70% active/30% passive split. Mr. Rue reviewed the reasoning behind PCA's recommendation for the shift. He indicated that the reallocation of the passive assets will raise the active risk but the resulting increase in return should outweigh the risk.

Mr. Canzano expressed his opinion that the risk should be reduced based on the chart provided by staff. Mr. Wolfson explained his data was based on historical information, and Ms. Bhatia added that by increasing the exposure to active management, we are effectively increasing the risk.

Upon further discussion and clarification, Mr. Moore motioned for approval of PCA's recommendation to change the allocation of the domestic equity program from the current 50% active/50% passive structure to a 70% active/30% passive split. The Motion was seconded by Mr. Canzano and carried unanimously after the following vote:

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

10. PCA's Fiscal Year 2008/2009 Roadmap to New Asset Allocation Targets - Discussion and Possible Action

Mr. Neil Rue of PCA distributed a revised schedule updated to replace the one found on page 10.7 of the Board package that detailed the preliminary rebalancing estimates by account and asset class.

Mr. Rue discussed PCA's memo regarding strategic allocation to asset classes and the new equity structure. He highlighted the bullet points in the summary and recommendations and noted the suggested change in the implementation timing of the evolving policy previously approved by the Board.

President Romero requested clarification on the recommendation to place \$500 million in an index fund with an existing international manager. Mr. Rue explained this two-phase process would be accomplished through an RFI process whereby one transition manager would restructure the domestic equity portfolio and draw \$100 million to fund an international equity index fund, as step one. He noted for step two, approximately \$400 million would be transitioned out of one of the fixed income managers into the international equity fund. The transition manager would oversee this process and maintain asset class exposures.

President Romero expressed his concern with having firms on watch manage these funds, and he suggested instead going through an RFI with the top performing international managers. Mr. Rue explained that strategic exposure is vital, and the goal is to gain exposure quickly through an index fund and then perform a structural review of the existing international equity asset classes to select the best active managers.

Ms. Bhatia asked if PCA could recommend potential international index fund managers where the funds could be parked, and Mr. Rue responded that would be part of the RFI process within the bench of transition managers. He asked if the existing transition management contract has an allowance to utilize an existing vendor for funds management to which Ms. Bhatia replied that the current contract is only for managing the transition and not the funds. She stated that staff historically has used the RFI process to select the best qualified manager and her main concern is that the Board understands staff is not using the transition manager just for transition services but also for managing a portion of the funds. City Attorney Mike Wilkinson interjected that the City Attorney's Office would work with staff to ensure the legal aspects of the process are handled properly.

President Romero clarified his understanding that staff would report to the Board on their transition manager selection, and PCA would provide guidance to staff regarding how the transition manager would manage the money. Mr. Rue explained PCA and staff would review the transition plan provided by the managers during the RFI process and report back to the Board with their opinion.

With regard to shifting \$500 million from domestic equity into international equity, Mr. Canzano inquired of the difference between accomplishing this all at once or spreading

it over time, considering the potential for a shift in the markets. In response, Mr. Rue referred to the evolving policy.

In response to a question from Mr. Moore regarding market timing, Mr. Rue discussed the pros and cons of making a transition at this time but suggested, once the Board approves a plan, staff should act quickly on its implementation.

Following discussion weighing the benefits of selecting the transition manager and parking the funds first, or proceeding with the two-phase plan, Mr. Rue explained the biggest opportunity cost is not having the exposure, and the key is to obtain immediate exposure and later adjust to the actual allocation.

With regard to funding the domestic equity managers, Mr. Canzano expressed his concern **that we not reward a lesser performer at the expense of those who perform higher.**

With regard to the implementation of the evolving policy, Mr. Rue noted the first of four phases of the allocation would begin July 1, 2008, and end June 30, 2009.

Mr. Moore motioned for approval of the bullet points in the summary and recommendation. The Motion was seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

11. Resolution to Ratify the Board's Decision to Invest with HRJ Capital Private Equity Fund

Mr. Canzano moved for approval of Resolution 08-73 to ratify the Board's decision to invest with HRJ Capital Private Equity Fund. The Motion was seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Romero, Coffin, Canzano and Moore

Nays: None

12. Resolution to Ratify the Board's Decision to Invest with Fisher Lynch Private Equity Fund

Ms. Coffin moved for approval of Resolution 08-74 to ratify the Board's decision to invest with Fisher Lynch Private Equity Fund. The Motion was seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

13. Discussion of Recommendation from PCA Regarding Additional Documents Requested by Lexington Capital Partners Private Equity Investment Manager and Possible Action

President Romero requested clarification of the issue. Mr. Rue explained that because the venture capital fund in question now owns some underlying public securities, they have asked Lexington to identify whether or not they have any broker/dealers (10% maximum) as limited partners, and these documents are just a formality to show that Lexington is eligible to purchase an interest in the fund.

Ms. Coffin motioned for approval of this item. The Motion was seconded by Mr. Canzano and unanimously carried after the following vote:

Ayes: Romero, Coffin, Moore, and Canzano

Nays: None

14. Report from City Attorney on Selection Process of Outside Counsel for Tax Matters

Mr. Wilkinson reported that Ms. Bhatia and Mary Higgins will be members of the interview panel.

15. DWP Retirement Board Newsletter – March 1, 2008

No discussion.

16. Retirement Plan Manager's Comments
a) General Items

Ms. Bhatia reported that the stolen computer had been recovered, and the test conducted by the police concluded that the data had not been compromised. She added that letters were sent to former employees on this matter.

She noted that Independent Fiduciary Services conducted an entrance conference with staff on March 11 regarding the items to be covered in the management audit, and staff received a request for documents to be provided by April 11.

She indicated staff is reviewing responses to the three RFPs, for general consulting, private equity and real estate. Mr. Wolfson reported that four responses were received for general consulting, five for private equity, and three for real estate. Ms. Bhatia explained that staff would like to have a separate Board meeting for the interviews, possibly on April 9.

She noted the work on the computer project continues and staff continues to coordinate with ITS as needed. She added that delivery of the first phase is expected by the end of May or early June, and tests will be conducted throughout the following few months.

President Romero asked if staff would have enough information to provide an annual statement, to which Ms. Bhatia replied staff would be able to provide a statement of employee contributions only.

17. Future Agenda Items

Mr. Canzano asked about the status of the plan amendment regarding employees killed during the course of their duties. Ms. Bhatia explained staff had provided information to Labor Relations and meetings had been held with the various unions, so the amendment should be nearing completion, and staff will then bring the amendment back to the Board.

Mr. Canzano asked for an update on additional contribution options.

The Board meeting was adjourned at 11:00 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Retirement Plan Manager

JULIE ESCUDERO
Recording Secretary