

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

MINUTES – May 22, 2008

Board Members Present:

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

Board Members Absent:

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

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Ramonette Carranceja	Assistant Retirement Plan Manager
Mary Higgins	Assistant Retirement Plan Manager
Jeremy Wolfson	Senior Investment Officer
Julie Escudero	Utility Executive Secretary
Sarah Bernstein	Pension Consulting Alliance
Neil Rue	Pension Consulting Alliance
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:37 a.m. after the Pledge of Allegiance.

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

No Public Comments.

1. **Termination from Monthly Rolls as of May 2008**
 - Retirement Resolution for May 2008**
 - Resolution Terminating Copeland Thompsom from the May 2008 Family Death Benefit Roll as a Result of his Death**
 - Resolution Terminating Thera Greenwald from the May 2008 Survivorship Roll as a Result of her Death**
 - Resolution Terminating Jose A. Vazquez from the May 2008 Permanent Total Disability Roll (Reached Termination Age)**

Mr. Canzano moved that the above items be approved. The Motion was seconded by Mr. Moore and carried unanimously after the following vote:

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

2. **Report of Payment Authorizations for April 2008**
3. **Notice of Deaths for April 2008**
4. **Report on Status of Insurance as of April 30, 2008**
5. **Summary Investment Returns as of April 30, 2008**
 - a) **Market Value of Investment by Fund and Month as of April 30, 2008**
 - b) **Market Value of the Retirement, Death and Disability Funds and Retiree Health Care Fund as of April 30, 2008**
 - c) **Investment Returns as of April 30, 2008**
6. **Report on Management Change at Fred Alger Management, Inc.**

Mr. Moore moved that the above Items 2 through 6 be approved. The Motion was seconded by Mr. Canzano and carried unanimously after the following vote:

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

7. PCA's Quarterly Performance Review as of March, 2008

President Romero recognized Mr. Neil Rue from Pension Consulting Alliance (PCA).

Mr. Rue summarized the Plan's performance for the first quarter of 2008, and indicated our portfolio was down 6.1% and underperformed by approximately 70 basis points. He reported the preliminary reports for April indicated the portfolio was recovering and was up 3.6%. He noted for the fiscal year to date, our portfolio was down 20 basis points versus our policy benchmark and he attributed the underperformance to this latest quarter. He reported that four of the five major asset classes underperformed by significant margins; however, the domestic equity portfolio was down just over 4 points compared to the markets which were down 6 points and the international equity portfolio slightly underperformed its policy benchmark. He stated the value of the retiree health fund portfolio was about \$630 million and was expected to grow over time due to employer contributions.

In response to a question by Mr. Romero regarding the reason equities were down, Mr. Rue responded the significant dependence on prospects for the U.S. economy drove all of the other economies.

8. International Equity Structural Review

Mr. Rue reported that the current international allocation was approximately 18% of the portfolio, however, because of the asset liability process the Plan decided to significantly increase the allocation over the next few months by about 50%, resulting in a 24% allocation of the portfolio. The overall program has consistently underperformed; this was not the result of just one quarter. Mr. Rue indicated options would soon be available should the Plan choose to change the existing structure.

Mr. Rue added that an International Equity Portfolio would offer a return premium and long-term growth. It would also diversify the portfolio. With the international equity

having outpaced U.S. equity, he explained that some of the risks involved in investing in non-U.S. equity were country political risk, currency risk, transparency risk, and additional counter-party risk. He added he believed the decision to move from domestic equity and invest in international equity has been worth the exposure and has doubled the return in comparison to U.S. equity. The emerging markets had also appreciated in the last few years from 10% to 20% and were expected to be the dominant economies.

In response to Mr. Romero inquiry regarding the timing of when an emerging market becomes part of the developed market, Mr. Rue stated that PCA relies on the index publisher, which is the Morgan Stanley Capital International (MSCI).

Mr. Vazquez requested a further explanation regarding transparency focusing on the U.S., to which Mr. Rue stated that transparency requires corporate America to make disclosures, and report more accurate information on liabilities and assets.

Several Board members questioned the effect of currency values on performance and significant discussion ensued about the merits of a currency program. Mr. Rue stated a review of implementing such a program could begin in the second half of the year.

Mr. Rue recommended that the Plan begin to utilize the MSCI benchmark, and to retain Pyramis and the two existing emerging markets managers.

Mr. Moore requested that Mr. Rue elaborate on the option of passive management in the international arena in comparison to that of the median active manager. Mr. Rue responded by recommending option four that would diversify the approaches to active management within international equities. He also recommended option six and keep the traditional structure but add a passive vehicle and allocate 80% in active and 20% in passive, with the potential to add new managers. Mr. Vazquez requested that PCA recommend one option and Mr. Rue recommended option four.

Mr. Romero then acknowledged Robert Harkins of The Boston Company who addressed the Board under a public comment. Mr. Harkins requested that while the Board considered restructuring the Plan's international portfolio, it should also take under consideration that valuations matter.

After having heard the public comment from Mr. Harkins, Mr. Romero asked Mr. Rue if his position on option four had changed to which Mr. Rue stated no.

In response to Mr. Canzano's concern regarding the shift of momentum of the value strategy and how the Plan can hedge against this, Mr. Rue stated that if the Board wished to accomplish this, it would be best to choose option six.

Mr. Moore moved that option four be selected and an implementation plan be brought back to the Board at a later date. The motion was seconded by Mr. Vazquez and carried unanimously after the following vote:

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

Proposed Updates to the General Investment Policy and Guidelines

9.

Ms. Bernstein of PCA presented the key changes which included adoption of a new asset class structure which added the real return class as a new asset class. This would result in the shift of hedge fund-of-funds to the real return out of private equity and place new potential areas for investments into the real return class. The domestic equity structure review decisions have been incorporated, resulting in the increase of active management and the addition of an evolving active class structure.

Mr. Canzano moved that the above item be approved. The Motion was seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore and Vazquez

Nays: None

10. Real Return Asset Class Proposed Policy Language

Ms. Bernstein addressed the Board and explained the Board had requested that the new real return asset class be increased up to 7% of the portfolio and include a number of asset classes to which the Plan had not been exposed. She noted the initial agreement was for a hedge fund-of-funds, which were already in the portfolio, and the addition of a Treasury Inflation Protected Securities (TIPS) program.

Mr. Moore moved that this item be approved as represented, recognizing that there will be an opportunity for further discussion when the resolution returns to the Board. The Motion was seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore and Vazquez

Nays: None

11. Updates to Private Equity Policy

The Board recognized Mike Moy of PCA.

Mr. Moy provided revised language related to the distinction between fund of funds and direct investment management. He noted the changes reflected the language the Board requested, including the removal of additional language regarding top-quartile performance results to ease investment policy restrictions and allow for investment in direct partnerships, and to incorporate both the Retirement Plan and Retiree Fund.

Mr. Canzano moved that the above item be approved. The Motion was seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Canzano, Coffin, Moore and Vazquez

Nays: None

12. Consent to Assignment of Contract in Connection with the Merger of the Bank of New York and Mellon Financial Corp.

Mr. Moore moved that the above item be approved. The Motion was seconded by Mr. Canzano and carried unanimously after the following vote:

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

13. Request from the Law Firm of Nossaman, Guthner, Knox, and Elliot for a Waiver of Conflict of Interest

Mr. Canzano moved that the above item be approved. The Motion was seconded by Mr. Moore and carried unanimously after the following vote:

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

14 Retirement Plan Manager's Comments

Ms. Bhatia informed the Board that Staff was in the process of completing the contracts for the general consultant and private equity consultant, both with PCA; the real estate consultant Courtland Partners; and the actuary, the Segal Company.

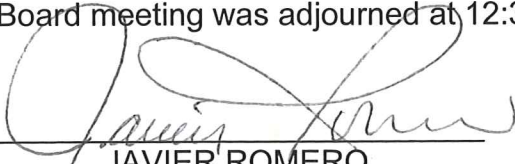
Ms. Bhatia also commented that the first release of the new system was received and has been loaded. The conversion activities have begun and a number of steps have to be taken prior to the parallel testing scheduled for August. The first phase should be available by November and it would replace the active membership system.

15. Future Agenda Items

Mr. Canzano requested an update on the proposed Plan Amendment regarding additional death benefits.

He also requested the distribution options for additional contributions be brought back.

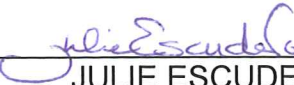
The Board meeting was adjourned at 12:35 p.m.



JAVIER ROMERO
President



SANGEETA BHATIA
Retirement Plan Manager



JULIE ESCUDERO
Utility Executive Secretary