

**GOVERNANCE COMMITTEE/SPECIAL MEETING
OF THE
RETIREMENT BOARD OF ADMINISTRATION
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MINUTES

JUNE 30, 2009

Present:

Barry Poole, Chair
Cindy Coffin
Michael Moore
Javier Romero
Jeff Peltola
H. David Nahai
Forescee Hogan-Rowles

Absent:

None

Staff Present:

Sangeeta Bhatia, Retirement Plan Manager
Monette Carranceja, Asst. Retirement Plan Manager
Mary C. Higgins, Asst. Retirement Plan Manager
Jeremy Wolfson, Chief Investment Officer
Julie Escudero, Utility Executive Secretary

Others Present:

Alan Manning, Assistant City Attorney
Mike Wilkinson, Deputy City Attorney

Mr. Poole called the meeting to order at 10:08 a.m.

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

Public Comments

There were no public comments.

1. Discussion of the Policy with Respect to the Use of Placement Agents

Ms. Bhatia recounted that on June 3, the Retirement Board discussed the need for a placement agent policy and directed staff to prepare a draft policy using samples from other pension plans, in particular the California Public Employees Retirement System (CALPERS), the California State Pension System, and the California State Teachers Retirement System (CalSTRS). She indicated that a draft Placement Agent policy was included for discussion and it would be included in the current Investment Policy upon Board approval. She noted the draft defined the responsibilities of existing and prospective investment managers with respect to the use of placement agents.

Mr. Moore suggested the second bulleted item on Page 1.3 of the draft be changed to read

*“ . . . Consultants when evaluating an investment opportunity ~~must~~ **to** ensure that the use of . . . ”*

Mr. Moore also asked how willing existing Investment Managers would be to sign disclosure documents regarding the use of placement agents. Mrs. Bhatia explained that the existing managers would be informed of the change in policy and that they were expected to disclose the use of placement agents. She noted Staff previously provided a report to the Board on the placement agents that had been used by the Plan's equity, private equity, and real estate investment managers.

Mr. Wolfson added the current contracts contain a statement stipulating compliance with the overall investment policy must be maintained. He further added that once the proposed placement agent policy was approved, it would be incorporated into the existing investment policy and would be sent to the current managers.

Mr. Manning added every contract is subject to a 30-day termination provision so if the managers did not cooperate, their contract could be terminated.

With reference to item "G" beginning at the bottom of page 1.4, Mr. Moore suggested adding language regarding *current and former elected and appointed officials or employees of the City, their campaign funds, and the funds of anyone seeking to be elected to public office of the City of Los Angeles* be added to what must be covered under full disclosure. Mr. Manning suggested also including political action committees.

(Ms. Hogan-Rowles joined the meeting at 10:18 a.m.)

Mr. Poole noted in item "B" under "Responsibilities of the Investment Manager," the term Third Party Marker be changed to Third Party Marketer.

Mr. Moore also suggested adding language under item "J" referring to full disclosure of affiliates registered as lobbyists of the state and national government, to also include *the City of Los Angeles*.

Mr. Moore moved that the Board approve the draft policy with the suggested changes and instruct Staff to bring the revised policy back to the Board at its next regular meeting; seconded by Mr. Romero and carried after the following vote:

Ayes: Moore, Romero, Coffin, Peltola, and Poole

Abstain: Hogan-Rowles

Nays: None

2. Discussion of IFS Audit Recommendations

Ms. Bhatia noted this item was included for general discussion of the IFS management audit, a copy of which was previously provided to the Board. She indicated the report included a number of recommendations, some of which were required Board action and policy development, while others were more complex and would require a Charter change. She added a number of follow-up meetings to discuss implementation of the recommendations would be required.

(Mr. Nahai joined the meeting at 10:21 a.m.)

Mr. Poole asked Staff to provide the Board with a list of recommendations, including the background, plus the various processes that would be required, and an estimated timeline for each. He stated once that was provided, the Board could prioritize each and establish an ongoing agenda.

Mr. Romero shared his view that Charter changes and Plan changes were beyond the authority of the Retirement Board and should not be addressed at this time and that the Board, instead, focus more on what it can change for now.

Ms. Bhatia noted the Executive Summary previously provided to the Board, and also Exhibit A of the Audit Report, both contain an overall perspective of the recommendations. *(The Audit Report separates the recommendations into five tasks, with a total of 160 recommendations.)* She stated changes to the governance structure, for example, was one that would require a Charter change.

Ms. Higgins distributed copies of a general timeline from the City Clerk's website, which outlined the steps necessary for a Charter change. She noted that particular timeline was for the November ballot; however, the time frame would be the same for any ballot. She added that the deadlines were set by the State and could not be changed.

Mr. Moore observed the majority of the recommendations in Tasks 1 and 2 are governance related, and the remaining tasks and recommendations are related to the management and processes of the Retirement Plan Office. He suggested Staff report back to the Board with responses to the Retirement Office recommendations and include a timeframe for implementation of the recommendations they agree with. He further suggested the Committee determine which recommendations in Tasks 1 and 2 they want to tackle as major governance issues and also determine which ones require a Charter change. He said he believed many could be resolved without changing the Charter because he thought the Charter and the Plan already contained language specific to a number of them. He suggested the Board work with the City Attorney to more clearly delineate the scope of the Board's authority.

With regard to the Board's authority pertaining to the Retirement Office budget, Mr. Peltola suggested the Plan's City Attorney and the Department's City Attorney meet to discuss the Charter language to determine where the final authority lies and then report back to the Board.

(Mr. Peltola left the meeting at 10:30 a.m.)

Mr. Romero displayed a copy of the policy book for the Ohio State Teachers Retirement System which contained all of their policies and procedures (i.e., education, board meetings, vacancies, ethics, government relations, expense policies, investments, travel, proxy voting, etc.). He suggested the Board examine each IFS audit recommendation and set, as its ultimate goal, the creation of a similar manual for the Retirement Plan.

Ms. Bhatia stated she agreed with Mr. Romero's suggestion of using the Ohio State Teachers Retirement System as a model. She proposed the Board first contend with the governance structure. Among the many governance recommendations, she suggested the lack of a formal ethics policy be undertaken first. She noted staff and the City Attorney had already arranged for a presentation from the Ethics Commission to take place at the next meeting. She acknowledged that the audit report was very detailed in terms of the recommendations, and she suggested the Board Members select the areas they believe should be tackled first. Based on the earlier suggestion of Mr. Moore, she indicated Staff could prepare a checklist of responses and decisions to each of the recommendations.

In response to Ms. Bhatia's query regarding next steps the Board wanted to take, Mr. Poole agreed with tackling the ethics policy.

Mr. Moore emphasized his belief that the Board's authority was one of the core issues to be addressed and that the authority of the Board, versus the management of the Department, versus the DWP Commission as the head of the Department clearly needed to be defined.

He indicated that during the time of the City Charter change, he was part of an organization involved with making sure the Board of Water and Power Commissioners had clearer authority with

respect to the appointment and removal of the Department's General Manager along with a number of other governance issues. He also indicated he was similarly involved in an amendment to change the structure of the Retirement Board to add a DWP Commission-appointed retiree representative. He explained that was done to ensure that the retiree member would look to his/her peers as much as s/he would look to his/her management background on critical long-term fiduciary issues.

(Mr. Peltola rejoined the meeting at 10:40 a.m.)

Mr. Moore noted he believed the City Charter and the Retirement Plan together gave the Retirement Board more authority than it has been exercising. He noted, as an example, the authority of the Board to appoint and remove the Retirement Plan Manager and to review the performance of the Retirement Plan Manager. He noted that both documents were very explicit that the Retirement Board shall appoint a chief executive officer of the Plan which, he added, did not occur with the latest selection. He further noted that the management audit asserted the same with respect to the Retirement Plan Manager. He also noted the California Constitution (Article XVI, Sec. 17) and Proposition 162 included language which established that CalSTRS and CALPERS, as well as municipal pension boards, had the sole and exclusive responsibility to administer their respective retirement systems. He added the City Charter points to the Retirement Plan, which cannot be changed first without action by the Board and then by the DWP Commission, and which contains the most specific language regarding the authority of the Board. He said he believed similar language was in place with respect to the Retirement Office budget. He stated he thought this required careful analysis by the City Attorneys.

Mr. Nahai agreed that a legal opinion was necessary and that the City Attorneys should begin to meet immediately on these issues and to research the Plan language, as practiced over time, and possible amendments that may have occurred either in writing or by conduct.

Mr. Manning replied that he believed the Plan's attorneys understood the issues. He indicated that several years ago, the issues were addressed by the Department's legal staff, and he echoed the need for meetings between the two offices to determine the best approach because it was apparent that not everyone was in agreement.

Mr. Poole raised the notion of possibly having an independent counsel review the issues as well.

Ms. Hogan-Rowles expressed her appreciation for Mr. Moore's information and she added that she thought it was imperative that all new Board Members be provided with a packet which would include information on the roles and key responsibilities of the Board Members as related to the law. She suggested that it also include a training component.

Mr. Peltola returned to how best to address the recommendations. He acknowledged that Mr. Moore had made two good points by suggesting that the governance and budgetary authority of the Board plus the hiring/firing and performance reviewing of the Retirement Plan Manager were two of the main issues. With regard to the remaining items, he suggested each Board Member provide a list of what they believe to be the key items instead of dealing with them one by one.

Ms. Bhatia explained the version of the Retirement Plan given to all new Board Members included all of the amendments to date and the same version was provided to Independent Fiduciary Services for the management audit. She acknowledged Joe Wyatt, the Plan's fiduciary counsel, was present and asked him if he had any comments.

Mr. Wyatt responded that he had not yet seen the audit report but he had read the executive summary. He stated that given so much was included within the recommendations, he believed the Board and Staff would do well by beginning with the three topics suggested here. He said they were all substantial, important, and controversial and he would be interested in watching the progress.

In response to Mr. Nahai's question of who would note which recommendations had already been adopted and which were in effect, Ms. Bhatia indicated Staff had prepared such a list. She stated Staff had also identified the recommendations that require Charter changes, those that require policy development, and those that can easily be implemented. Mr. Nahai suggested the Board receive the list of those already implemented before they compiled and presented their individual lists of the most important items.

Mr. Moore asked Ms. Bhatia if the Board would benefit from receiving a copy of the study on governance issues, which was performed by an organization named Cortex and referenced in the audit report. Ms. Bhatia indicated some policies suggested in that study were in various stages of development. She said she would check if any had been completed, but she did not think any had been adopted.

Mr. Romero said he had participated in the study, and added that the amount of money Cortex wanted in order to complete the project was extraordinary and those involved in the study at the time believed staff could handle the project just as well. He further added that was why he obtained the copy of the Ohio State Teachers Retirement System book, which was voted the top pension plan in governance, and which he thought would be a good model to follow. He offered to provide copies for the next meeting.

Mr. Nahai commented it would also be helpful to know which recommendations required a meet and confer process with the unions, and those that would require a Charter change.

Ms. Higgins mentioned the meet and confer process on Charter changes was different than for general plan amendments, and staff would outline that as well.

Mr. Peltola requested to see the Retirement Office's strategic plan if one had been created. Ms. Bhatia responded the Retirement Office had submitted its strategic plan as well as its goals and objectives to the General Manager's office, and she would verify if it had been discussed at the Board level.

Mr. Peltola also suggested the Board Members have an annual offsite meeting to discuss the annual and five-year goals.

For the next meeting, Mr. Moore suggested the Board begin to prioritize the recommendations and decide on the ones to begin with.

Mr. Nahai reiterated his request for a list of what has already been implemented, what needed a Charter change, and what required a meet and confer process.

Ms. Bhatia pointed out that the previously arranged ethics presentation would be rescheduled because two Board Members were unable to attend the originally intended Regular Board meeting. She also indicated the next Governance Committee meeting would be scheduled as soon as Staff was able to assemble the necessary information.


Public Comments

Mr. Poole reopened Public Comments at the request of Mr. Romero.

Mr. Romero presented Commissioner Forescee Hogan-Rowles with a Certificate of Appreciation from the Water and Power Employees' Retirement Plan Board of Administration, the Retirement Office Staff, and the employees of the Department of Water and Power in thanks and recognition for her services rendered as a Retirement Board Member for the years 2005-2009.

Ms. Hogan-Rowles expressed her thanks and appreciation.


With no further business, the meeting was adjourned at 11:12 a.m.


BARRY POOLE
Chairperson

8/5/09
Date


SANGEETA BHATIA
Retirement Plan Manager

8/5/09
Date


JULIE ESCUDERO
Utility Executive Secretary

8.6.09
Date