

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

MINUTES – FEBRUARY 7, 2003

[A full transcript of this meeting by a court reporter has been requested]

Present:

Javier Romero President
Dan Mirisola Vice-President
Lilly Calvache Board Member
David H. Wiggs General Manager
Ron Vazquez Chief Financial Officer
Norma Bertrand Board Member

Others Present:

Duamel Vellon Retirement Plan Manager
Sangeeta Bhatia Assistant Retirement Plan Manager
Ellen Shimamoto Assistant Retirement Plan Manager
Silvia Tesseneer Recording Secretary
Mike Wilkinson Deputy City Attorney
Neil Rue Pension Consulting Alliance

Absent:

Anne E. Cho Commissioner

President Romero called the meeting to order at 11:05 p.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board present. He explained that Commissioner Cho could not be present, due to conflict with other meetings.

PUBLIC COMMENTS

There were no public comments.

1. Consideration of tone and content of e-mail to Plan Consultant.

President Romero stated, due to the fact he and other Board members would be attending a seminar next week, this was the best time to hold this meeting. He clarified this meeting was called at Mr. Vazquez' request. Mr. Vazquez indicated he requested this meeting in closed session, but Mr. Vellon requested to have it in open session.

Mr. Vellon clarified, initially, Mr. Vazquez had a different request under Section 54957, and this section provides certain rights and protections. He added, Mr. Vazquez later changed his request to just discuss the tone and content of an e-mail, and he (Mr. Vellon) considered this an innocent request.

Mr. Vazquez started by saying the Board hired Pension Consulting Alliance (PCA) to assist the Board with the transition into full discretion, which he

believes PCA has done a good job and they have conducted themselves in a professional manner. He expressed, Mr. Vellon, as Retirement Plan Manager, communicates with PCA and others, on behalf of this Board, and he wants Mr. Vellon to communicate on his behalf in a polite and professional manner. Mr. Vazquez took exception to the tone and content of e-mails to PCA, which he received. He gave as example, the e-mail dated January 30, 2003, where Mr. Rue requests Mr. Vellon for any edits he may want on a draft. He indicated Mr. Vellon declined to provide comments stating Mr. Emkin has provided prior drafts to our chain of command (Mr. Vazquez requested that after he finished his comments he would like Mr. Vellon's comments to back those statements, specifically who is in this chain of command and who Mr. Emkin showed any draft). Mr. Vazquez stated, in the same e-mail response, Mr. Vellon blames PCA for his consternation over edits made to a document the previous week. Mr. Vazquez also indicated, in another e-mail, dated February 3, 2003, Mr. Rue asked Mr. Vellon for comments on a draft e-mail for emerging managers. He characterized Mr. Vellon's response as more or less saying "Why are you asking me for comments after what has happened previously", making reference again to a draft letter PCA provided to a chain of command. Mr. Vazquez believed the tone and content of these two e-mail messages were offensive and unprofessional, Mr. Vazquez also believes, by questioning PCA's integrity, this Board could be exposed to potential liability and lawsuit if PCA's reputation is in any way damaged as a result of this letter. Mr. Vazquez requested, in the future the Plan Manager use courtesy and professionalism in communicating on behalf of the Board. He added, to the extent that our Consultant has breached the responsibility to this Board, Mr. Vazquez believes Mr. Vellon should bring that item to the Board and the Board should take action or investigate the matter.

Mr. Vellon responded he needed to think about his response, since he was surprised by Mr. Vazquez' requirement for evidence, since he knew Mr. Vazquez was aware of the facts. He noted he would rather respond in writing, and will produce the evidence in writing.

Mr. Mirisola commented he liked Mr. Vazquez' idea of an investigation, surrounding relationships with PCA and people outside this Board. He noted PCA breached the confidentiality agreement with the Board, went to outside parties, went to Mr. Lombard; negotiated policies without having Board Resolutions; and are now asking for specific information, which this Board has never asked them for and all this is on record. Mr. Mirisola inquired why do Board members question Mr. Vellon's integrity and his professionalism, when it is PCA who has breached the confidentiality and has intentionally manipulated numbers to allow firms who didn't meet the criteria to come within the top three. He mentioned as example, Merrill Lynch came up with no minimum qualifications for the Russell 1000, but PCA ranked Merrill Lynch within the top two, after Board members asked them no to rank them; after this Board asked them to bring all firms. Mr. Mirisola noted two of PCA's top three firms didn't meet the minimum qualifications requirements, and the firms that did meet all the qualifications, PCA ranked below the top

three. He stated it is rather obvious PCA is manipulating who the Board hires. Mr. Mirisola questioned Mr. Vazquez as to why he didn't extend the same courtesy to Mr. Vellon. Mr. Mirisola stated, when Mr. Freeman was the General Manager, Mr. Freeman worked along with the Board and there was a lot done. He added, after Mr. Freeman left, there has been a concerted attack against Mr. Vellon's reputation. He elaborated on a recent letter he just received, where PCA asked specific information from one manager but not from the other and this is why there needs to be an investigation of PCA. Mr. Vazquez stated for the record, if other members of this Board condone this type of communication on their behalf, he wants no part and no liability. He elaborated on the draft letter initially prepared by PCA and how did he receive a copy of such from PCA. He indicated the finalized letter was not as specific as he thought it might be. He noted he contacted Mr. Vellon and President Romero to express concern on the fact that he didn't have a chance to review the draft e-mail and to point out that the edits were weak.

President Romero clarified that, concerning the draft letter, Mr. Vellon took a lot of heat, but he was only acting as Board Secretary. President Romero took responsibility for the letters, since he had directed Mr. Vellon. He stated this Board is talking about PCA's reputation being damaged, but what about what PCA has done to the elected members and the retirees of this Board. He further stated PCA is not including this Board in this process, is bringing things that this Board has not requested, is not returning Board members phone calls and, therefore, PCA has done damage to this Board and to its elected members and retiree representative on this Board.

Ms. Calvache stated, for the record, she recalls when Mr. Emkin said to the Board he didn't work for Mr. Vellon, but only for the Board. She indicated she knows Mr. Emkin has not returned several of President Romero's phone calls, and she finds this offensive, since Mr. Emkin should be working with the Board. She added, Mr. Emkin is not doing what this Board is requesting him to do, he is ranking the RFP firms, when Board members asked him not to, and he brought three firms, when the Board asked him to bring all respondents. Ms. Calvache indicated it is very obvious PCA is not delivering what this Board wants and everybody should be treated in a professional way.

Mr. Mirisola stated, as elected member, employees have put a lot of trust and confidence in him, and the other 2 elected members, to protect their retirement Plan. He read into the record Mr. Vellon's e-mail to PCA and indicated it was properly written.

General Manager (GM) Wiggs questioned Mr. Mirisola on why he supported the discussion of "inclusion", January 24th, while his comment today suggests he is not fully in favor. Mr. Mirisola expressed concerns about Mr. Rue's original draft having 4 bullets which were very specific. He added, depending on the time a firm who received it, it could or couldn't respond accurately or sufficiently. Mr. Mirisola noted the only other company with four bullets was Merrill Lynch. He indicated the Board also asked Mr. Emkin not to create a

screening criteria, without first having it explained to the Board, including what the criteria was for, but Mr. Emkin still ranked them, and he also took companies that didn't meet the qualifications and put them in the top three.

GM Wiggs stated, as a Board member, they had no restrictions and can look at all five firms. He noted Mr. Mirisola may disagree on how PCA staff handle the process and this Board can decide if it is not happy with PCA, to change it, but in his opinion nothing has tainted this process. He emphasized the Board still has full authority to pick the firm they want. GM Wiggs noted there are 2 or 3 issues: Mr. Mirisola has been convinced of a conspiracy, but he (GM Wiggs) has never seen it, and he doesn't believe there is. He added President Romero has done a great job managing the Board. Number two, he believes everybody should act professionally, especially the Plan Manager, regardless, and if PCA has acted inappropriately, then Board members need to dismiss him or keep them. He also indicated the Plan Manager should act responsibly, and if he is not acting professional, the Board should not tolerate that anymore than they would tolerate a Consultant who is not doing what the Board requests. GM Wiggs also stated if the Plan Manager feels people are after him, the Plan Manager needs to be specific and bring it to the Board or to EEO. More discussion ensued and President Romero referred to an e-mail, dated February 3, 2003, where Mr. Rue writes, "The Retirement Plan Board is currently reviewing their policy toward emerging managers that do not meet the minimum criteria". President Romero indicated this is not what the Board is doing, and what the Board is doing is an inclusion policy.

Mr. Vazquez stated first, when an RFP is published, anybody can respond to it, regardless of qualifications, second the only purpose of why he called this meeting is to look at the responses on these e-mails, and from his stand point, they are not professional and can jeopardize this Board in some manner. Mr. Vazquez requested of Mr. Vellon, that whenever he communicates on his behalf to respect his wishes.

Mr. Vellon indicated there is a lot of friction between one side of the Board (elected) and another side of the Board (Management), and this has been the case ever since he first started. He added the elected members have always praised him for his performance, while the other members can't bring themselves to doing the same, maintaining silence. He further indicated, PCA seems to be telling some Board members one thing about emerging managers while telling GM Wiggs and Mr. Lombard another. He stated the three elected members feel strongly PCA has failed to deliver, while the other Board members think PCA is the best thing after apple pie. Mr. Vellon stated when one compares what the three elected members have said about PCA, with what a retiree said about PCA when the Board first hired them, one would find a scary match between the descriptions made of Mr. Emkin (which Mr. Vellon claimed he didn't believe at that time) and the description Board members have given today. He continued by stating Mr. Vazquez, on January 27, 2003, went to his office, very upset about the letter, mailed to the passive managers and asking him for the original draft PCA had prepared.

Mr. Vellon noted he tried to print a copy, but his computer failed to retrieve it, to which Mr. Vazquez then responded he had already received such original draft from Mr. Rue (PCA). He emphasized the fact was Mr. Vazquez had received the original draft directly from PCA. He also noted at the January 29th Board meeting, GM Wiggs told him PCA's original draft letter had already been presented to Mr. Lombard.

Mr. Vellon expressed the revised letter, ultimately sent out, was complete and appropriate, even though it didn't have some bullets PCA wanted to include. He emphasized he worked as an intermediary between the Board members and PCA to get a timely final version out, which was sent out around 8:00 p.m. Regarding the issue of the e-mail, Mr. Vellon noted he recognized Mr. Emkin had direct access to Mr. Lombard, and as a result, he had recommended to Mr. Vazquez if he was not satisfied with the letter (ultimately sent out), he should send out another version in time. He expressed PCA appeared to be playing with the elected members, and today the true PCA is showing, which the Board had been warned by one of the retirees, who had brought these very issues a year or so ago.

Mr. Vellon asked GM Wiggs to read the e-mail and to comment if he finds something offensive in it. Mr. Vellon felt that this was brought up as an attempt to try to tarnish his reputation, out of 3 sentences, within an email. He expressed the suggestion he is not delivering what the Board wants, is unfair, unreasonable, and doesn't give him justice.

GM Wiggs responded that he will read the e-mails again, and will give Mr. Vellon feedback. GM Wiggs agreed the changes on the original draft letter were fine, but he emphasized if PCA is not acting in a way this Board wants, to bring the issue to the Board and have it corrected or to look for another consultant. He stated he wants Mr. Vellon to be professional, no matter how frustrated he is with PCA. He indicated, as far as he knows, there is no restriction for the consultant to talk to whomever he wants to talk to. He noted, if the consultant has breached the confidentiality agreement, the Board must be specific and bring it to the City Attorneys. He clarified how Mr. Lombard contacted him, to let him know the Retirement Board had put an RFP that excluded all kinds of minority firms, because the criteria was high. He indicated Mr. Lombard was getting calls because this process was unfair and not in line with the City's Policy or the Water and Power Board policies. He indicated Mr. Lombard also asked him to look into the matter and he contacted Mr. Vellon to find out the status of the RFP. He added from there, he believes Mr. Emkin talked to Mr. Lombard.

Mr. Vellon expressed concern about GM. Wiggs' reference to the need for more time for him to have an opinion about the e-mail. He added it was three sentences long, was read into the record, and was included in the agenda packet. He felt, as GM and as head of DWP, GM Wiggs maybe providing a confusing message to others. Mr. Vazquez clarified regarding the meeting on January 27, 2003, the draft letter he had, he had it because he requested it from Mr. Rue (PCA).

Mr. Mirisola stated Mr. Vellon has done an excellent job going wherever he is needed to give employee presentations on retirement issues, and he has always carried himself in a very professional way. He added Mr. Vellon has great integrity and his contribution has been appreciated by all employees. GM Wiggs stated Mr. Vellon has done positive and negative things. Mr. Vellon stated that during his tenure with the Department he doesn't recall doing anything negative. He inquired of GM Wiggs if he could provide one example of anything negative.

Mr. Vazquez stated that he was fine with Mr. Vellon providing his specifics, in writing, about the initial draft letter by PCA. Mr. Vellon noted the evidence was already on the record wherein Mr. Vazquez acknowledged he received a copy of the initial draft from Mr. Rue. Ms. Bertrand inquired what was the chain of command. Mr. Vellon responded this includes Mr. Vazquez, Mr. Lombard, GM Wiggs, etc.

Mr. Vazquez stated the problem he had was he requested to see the original draft letter, and he never had a chance to do that, therefore he never was able to give any input. He wants in the future his requests to be respected.

President Romero stated he takes responsibility for the changes to the first draft. He indicated he worked through 7:00 p.m., and he contacted Mr. Mirisola and Ms. Calvache, because he has their phone numbers, but he doesn't have Mr. Vazquez' or GM Wiggs' home phone numbers. He stressed this was a unique situation, and Mr. Vellon was only trying to help both parties agree on something. He added Mr. Vellon was in fact at the airport, with his wife, and they had already missed one flight because all this and were waiting on another flight. GM Wiggs and Mr. Vazquez stated that they now understand. President Romero stated this issue needs to be put to rest and the Board needs to focus on PCA.

The Board meeting was adjourned at 12:15 p.m.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary

