

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

**MINUTES**

**June 17, 2009**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member  
H. David Nahai, General Manager  
Forescee Hogan-Rowles, Commissioner  
Jeff Peltola, Chief Financial Officer

**Board Members Absent:**

None

**Staff Present:**

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

**Others Present:**

Alan Manning, Assistant City Attorney  
Tad Fergusson, Pension Consulting Alliance, Inc.  
Neil Rue, Pension Consulting Alliance, Inc.

President Romero called the meeting to order at 10:08 a.m. following the Pledge of Allegiance.

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

**Public Comments**

There were no public comments.

**1. Approval of May 20, 2009 Regular Meeting Minutes**

**2. Termination from Monthly Rolls**

**Terminations from the June 2009, Retirement Roll**

**Termination of Idius D. Tanner (Deceased) from the June 2009 Survivorship Roll**

*Mr. Moore moved for approval of Items 1 and 2; seconded by Ms. Coffin and carried unanimously after the following vote:*

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

*Nays: None*

**3. Report of Payment Authorizations for May 2009**

**4. Notice of Deaths for April 2009**

**5. a) Summary of Investment Returns as of May 31, 2009**

**b) Market Value of Investments by Fund and Month as of May 31, 2009**

**c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of May 31, 2009**

**6. Report on Status of Insurance as of June 9, 2009**

*Ms. Coffin moved for approval of Items 3 through 6 as received and filed; seconded by Mr. Moore and carried unanimously after the following vote:*

*Ayes: Romero, Coffin, Poole, Moore, and Peltola  
Nays: None*

**7. Presentation by Pension Consulting Alliance, Inc. – Hedge Fund of Funds Quarterly Report as of 3/31/09**

Mr. Romero acknowledged Mr. David Sancewich, Vice President, Pension Consulting Alliance, Inc. (PCA)

Mr. Sancewich reported the Plan's portfolio had an aggregate value of \$60.2 million at the end of the first quarter of 2009 and outperformed its policy benchmark by 0.8 percent net of fees and surpassed the median fund over all time periods since inception.

*(Ms. Hogan-Rowles joined the meeting at 10:11 a.m.)*

Mr. Sancewich reviewed the performances for AETOS and PAAMCO and reminded the Board the two firms were selected because they complimented each other in different market cycles. He noted PAAMCO performed well in the rising market, whereas AETOS performed better during market downturns. He noted both firms were registered with the Securities and Exchange Commission (SEC) at the firm level, but AETOS also only invests in registered funds which are required to provide full transparency and full disclosure. He stated PAAMCO was only SEC registered at the firm level and was precluded from disclosing the names of its managers as public record; however, it provided full disclosure to PCA and staff for internal reference.

*(Mr. Nahai joined the meeting at 10:19 a.m.)*

Mr. Sancewich stated AETOS and PAAMCO were placed on watch status in January 2009 due to their 2008 performance, and he indicated PCA will report back in the future with an update on each.

**8. Discussion of NorthPointe Transition Report by Pension Consulting Alliance, Inc.**

Mr. Wolfson recounted that on February 18, 2009, the Board approved the termination of NorthPointe, small cap manager, for poor performance, and on March 4, 2009, they approved the selection of Russell Implementation Services (Russell) to transition the funds into the Plan's cash account. He explained that Russell's estimated implementation shortfall was 50 basis points less than the actual shortfall. The actual shortfall was the result of high volatility during the transition period and the illiquidity of a portion of the portfolio's securities which prolonged the transition period.

Neil Rue of PCA added that PCA compared the pre-trade analysis with the actual results, and he stated those numbers were consistent with normal costs. He explained the account experienced a loss of slightly over \$1 million as a result of the sharp decline in the market, specifically on the first day of trading when the index fell 472 basis points. He added that despite the activities over which Russell had no control, the transition was accomplished relatively smoothly.

Mr. Romero asked if another transition manager would have performed more favorably, and Mr. Rue replied another manager probably would not have because, at that time, the use of derivatives was not permitted. He added the opportunity cost would have been much lower if derivatives were permitted from the outset.

Mr. Wolfson added that since that time, contract negotiations regarding the use of derivatives have been completed, and the use of derivatives was now allowed.

Mr. Romero asked if other transitions were pending, and Mr. Wolfson replied the transition to implement the new asset allocation plan would be forthcoming after PCA reevaluated the transition plan to consider the current market condition.

#### **9. Discussion of Designation of Trustee for Incompetent for Laurice Thigpenn**

Ms. Higgins reviewed the information on this item as contained in the Staff memo. She indicated Mrs. Laurice Thigpenn was incapable of making decisions for herself and has been unable to claim any survivor benefits since the recent death of her husband, who was a retired member of the Plan; therefore, her son, Ronald Thigpenn, requested he be appointed as Trustee for his mother. Ms. Higgins noted Staff had received all of the necessary documents to process this request and had spoken to Mrs. Thigpenn's other children to verify their concerns. She recommended the Board approve the attached resolution to designate Ronald Thigpenn as the Trustee for his mother for a period not to exceed six months.

Ms. Higgins noted the resolution included in the agenda package contained an error in the second "Whereas" clause, and it should read ". . . Laurice Thigpenn is legally **incapable** of giving valid receipts and discharge of her payments . . ."

*Mr. Moore moved for approval of Resolution No. 09-104 as corrected to designate Ronald Thigpenn the Trustee for his mother, Laurice Thigpenn; seconded by Ms. Coffin and carried unanimously after the following vote:*

*Ayes: Romero, Coffin, Poole, Moore, Hogan-Rowles, Nahai, and Peltola  
Nays: None*

#### **10. Discussion of Retirement Office Budget**

Ms. Bhatia reported that at the Special Retirement Board meeting held on June 3, the Board discussed various issues regarding the Retirement Office budget, the verbal motion presented at the June 2 DWP Commission meeting, and the process by which the Department removed seven of the eight positions in the Retirement Budget approved by the Retirement Board on February 18, 2009. She stated that at the June 3 Special meeting, the Retirement Board directed staff to bring back a revised budget. Ms. Bhatia referenced the revised budget that was included in the agenda package. She explained that the budget approved by the Board last year (FY 2008-2009) had an administrative expense of \$8.4 million. She noted that the budget for FY 2009-2010 did not include any new positions. She stated that the Retirement Office had not asked for any positions despite the increase in workload since July 1, 2006, for the Investment Section and have not asked for any positions with respect to the Benefit Section since July 1, 2005. She further explained that the revised budget being presented today did reflect an increase of 6 positions; 5 clerical positions and one Investment Officer position which were extremely critical to the Retirement Plan's operation. However, she further stated that the total administrative expense budget was contained at less than \$8.4 million by making cuts in other programs. She noted the Plan was invested in complex asset classes and details about each of the categories of the positions that were being requested had been provided. She reiterated that the total Administrative Expense Budget was maintained at the \$8.4 million level which was the same as what was approved for FY 2008-2009. She explained that despite the increase in positions, the Retirement Office was financing the cost of the increase by cuts in other expenditure programs and there will not be any increase to the amount billed to the Department with respect to the revised budget.

In reply to Mr. Moore's question with respect to reductions in professional services, Ms. Bhatia indicated staff had reduced the travel expenses related to required due diligence visits, deferred the request for a portion of the expenses expected to be incurred next year relative to the new computerized pension system, and deferred the implementation of the mid-career retirement training program and support for the pre-retirement training program. Mr. Moore also asked how the actuarial services would be affected, and Ms. Bhatia stated additional funds had been included earlier for studies pertaining to the new regulations and the potential changes with respect to funding and smoothing exercises.

Mr. Nahai asked Ms. Bhatia for the actual expenditures out of the \$8.4 million budgeted for FY 08-09, and Ms. Bhatia stated that figure was unavailable since the fiscal year was not yet completed. She noted the actuals for FY 07-08 were \$5.8 million. Mr. Nahai asked her what she thought the actuals would be for FY 08-09, and Ms. Bhatia said she expected the amount would be close to the \$8.4 million budgeted, although it could be slightly less because of the lag time for chargebacks from various divisions.

Mr. Nahai expressed his sincere thanks to Ms. Bhatia and acknowledged this was an unprecedented and difficult situation for anyone to contend with, and he thought she had come up with an elegant solution to provide for six of the original eight positions and not increase the dollar amount. He maintained; however, the reality of cutbacks and hiring freezes still remained a concern, and he would have preferred a revision that included less than the six requested positions. He urged the Board, to the extent possible, to provide a number that would be financially acceptable, practically workable, and politically palatable. He said he would like to be able to support whatever decision the Retirement Board made and that budgets could be revised, but perhaps this was not the best time to request six new positions.

Ms. Coffin reiterated her frustration with the process, and she stated the Board's decision to approve the budget was made responsibly. She said she thought Ms. Bhatia did an excellent job of identifying the critical positions and not requesting additional money. She noted she was concerned about the suspension of the pre-retirement classes and mid-career planning, and she suggested there might be other places in the Department where cuts could be made.

Mr. Nahai clarified he was not asking for all six positions to be deferred. He suggested maybe four positions be approved for now and then the Retirement Office could come back later in the year when the actuals for 2008-2009 have been determined.

Mr. Poole expressed his concern with the use of temporary positions (mentioned in the Staff report) versus full time positions, and his belief that the Retirement Office must maintain continuity of service, which might be sacrificed if new temporary employees were constantly being trained.

Ms. Bhatia explained the Retirement Office has continued to use temporary positions, specifically two Limited Clerk Typists, for the important task of document imaging within the new computerized system. She said she felt it was no longer practicable to continue to use temporary positions, considering the amount of time spent on training and the sensitivity of the documents that they handled.

She added staff has been keeping workload statistics and, despite the hiring freeze, the Department was hiring an average of 90 employees a month, which has affected the Retirement Office workload because those new employees then become members of the Plan. She said the Retirement Office is charged with a great responsibility and she has been sensitive to working within the overall goals of the Department and felt this was accomplished by working in the additional positions using the same budget that was approved last year.

Ms. Hogan-Rowles acknowledged Ms. Bhatia's leadership at the DWP Commission meeting held the previous day, June 16. She stated Ms. Bhatia faced some tough questions from the Commissioners and responded with great clarity and thoughtfulness. Ms. Hogan-Rowles continued by noting her concerns with respect to the two Limited Clerk Typists leaving when their time expired and with the security risk of using outside people to handle classified employee and retiree records. She agreed with the suggestion to approve four positions now and consider the remaining two positions in the fall.

Ms. Bhatia thanked Ms. Hogan-Rowles for her comments and for supporting her throughout the process, and she said she thought Ms. Hogan-Rowles did an excellent job in representing the Retirement Board at the DWP Commission meeting. With regard to considering only four positions as this time, Ms. Bhatia said the only concession would be if the Retirement Office could come back at mid-year to add the two Clerk Typist positions. She added that the Plan required the budget to be adopted 60 days prior to the end of the fiscal year, which was why the budget was originally considered in February, and she further added that the budget needed to be approved now.

Mr. Moore said he believed what was being proposed was workable, and he wanted to emphasize that major changes have taken place within the Retirement System over the past five years which have consumed considerable staff time based on the Board's urging to implement the changes. He said he appreciated what Ms. Bhatia has come up with in terms of trying to reach a compromise, and he agreed to go with four positions now and come back with the remaining two positions later.

Mr. Peltola stated what concerned him significantly was the percentage increase and the fact that the administrative expenses had basically doubled since the 2006-2007 fiscal year. He said he understood the Retirement staff needed the resources to meet their responsibilities, but he was also concerned with the perception, and he would like to see the actuals for 2008-2009. He reiterated it was difficult for him to support the addition of six new positions.

Ms. Bhatia clarified that when the Retirement Office implemented full discretion asset management in 2003, they did not request additional personnel at that time and struggled to optimize on their existing resources. She added that only the first phase of the new automated system had been implemented to date, and it would take time before any necessary additional changes would become evident. She expressed her hope that the Retirement Office would receive support from executive management in terms of the Retirement Plan operations.

Ms. Hogan-Rowles recognized that even when she first came on board three-and-a-half years ago, a substantial amount of overtime was being worked by the Retirement staff, and she stated the Department needed to ensure that employees are not overworked. She indicated her support of the compromise that was suggested.

*Mr. Moore moved to adopt Resolution No. 09-105 to rescind the prior budget and annual personnel resolution (APR) adopted on February 18, 2009, and authorize a revised budget and APR for 2009-2010 with the amendment to delete the two Clerk Typist positions and change the APR and dollar amount to reflect the change, and to authorize staff to revisit the request to add the two Clerk Typist positions for discussion and possible action in the fall.*

*The Motion was seconded by Ms. Hogan-Rowles and carried after the following vote:*

*Ayes: Romero, Coffin, Poole, Moore, Nahai, and Hogan-Rowles  
Nays: Peltola*

**11. Retirement Plan Manager's Comments**

Ms. Bhatia reported staff began the parallel testing of the new system and said the first phase of the integrated pension system, which addresses the active members, was in place, as was the initial phase of the document imaging system. She noted this was a major accomplishment, and Ms. Carranceja deserved credit for leading the team which consisted of Retirement employees and ITS staff. She indicated everything was good so far with only minor items that needed to be tweaked as was expected, and staff was working with the contractor on those.

She stated the Retirement Office received a California Public Records Act (CPRA) request for information on retirees who receive retirement allowances exceeding one hundred thousand dollars a year. She mentioned approximately 250 retirees were affected, and staff was working with the City Attorneys' Office and the CPRA group, and they have asked for an extension of the time limit to respond. She noted that staff had established a call center to answer questions. Ms. Higgins added staff had received several calls and explained that they were required to provide the information. She said although the callers were unhappy with the request, they appreciated the advance notice.

Ms. Hogan-Rowles announced she would be resigning from the Retirement Board to be effective July 1, 2009. She said she has had a great membership on the Retirement Board, and that her resignation was in line with the conclusion of the Mayor's first term.

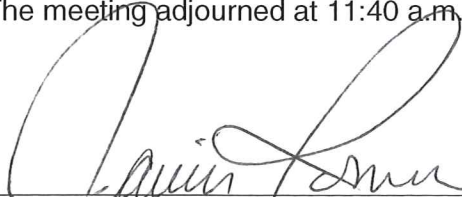
She reflected on all she learned during her tenure on the Board and encouraged the continued training of the Retirement Board members. She recognized the successful creation of the divestment policy and the process the Governance Committee created to deal with various social issues. She thanked the Board Members and staff and she added that she will remain a member of the DWP Board of Commissioners and affirmed her continued support of the Retirement Board at the DWP Commission level.

Mr. Romero thanked Ms. Hogan-Rowles for her genuine interest and ownership of the Retirement Plan and for her participation and spirit in trying to do what was best for the Plan.

**12. Future Agenda Items**

Mr. Peltola requested a discussion of the possible date change for the Retirement Board meetings to allow for more preparation given that the DWP Commission generally meets the day prior to the Retirement Board.

The meeting adjourned at 11:40 a.m.

  
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JAVIER ROMERO Date 7/15/09  
President

  
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SANGEETA BHATIA Date 7/15/09  
Retirement Plan Manager

  
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JULIE ESCUDERO Date 7.15.09  
Utility Executive Secretary