

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

**MEETING – MARCH 17, 2004**

**Present:**

Javier Romero	President
Lilly Calvache	Vice President
Ron Vazquez	Chief Financial Officer
Dan Mirisola	Board Member
Michael Moore	Retiree Member
Gerard McCallum II	Commissioner

**Absent:**

David H. Wiggs	General Manager
Duamel Vellon	Retirement Plan Manager
Frank Salas	Acting General Manager

**Others Present:**

Adriana Rubalcava	Acting Retirement Plan Manager
Tom Harrington	Consultant
Lesley Kuo	Investment Officer
Vikki Burks	Recording Secretary
Sarah Bernstein	PCA (Pension Consulting Alliance)
Mike Wilkinson	Deputy City Attorney
Donna Weisz Jones	Deputy City Attorney

The meeting was called to order at 10:09 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Rubalcava indicated there was quorum of the Board.

**PUBLIC COMMENTS**

President Romero acknowledged Mr. Frank Miramontes (Retiree). Mr. Miramontes approached the podium and introduced himself stating he was a retiree who worked for the Department for over 30 years and has been a life-long citizen of the City of Los Angeles. He indicated he was present at the last Board meeting addressing serious issues concerning the Retirement Plan, specifically on an issue of an Acting Retirement Plan Manager being placed to oversee a multi-billion dollar Plan, who has no experience with any Retirement Plan, and, secondly, addressing the issue concerning decisions made by a few members of the Board rather than the Board making the decisions dealing with any major changes or critical issues dealing with the Retirement Plan. He emphasized the importance of resolving these issues because it affects the lives of over 10,000 retirees and 8,000 active employees who have their monies and life savings invested in the Retirement Plan. Mr. Miramontes cautioned the Board that once word

gets out to these DWP retirees and active employees that their entire livelihood and retirement are at risk, a few of them will voice their opinions to the Board. He then addressed his comments directly to Commissioner McCallum stating since he [Commissioner McCallum] is a new member to the Board, it is his responsibility whether to allow someone to oversee the Plan with no experience, which is hard to justify in court if Commissioner McCallum were to go before a judge. Mr. Miramontes stated Commissioner McCallum was appointed by the Mayor of Los Angeles and approved by the City Council to represent all the citizens of Los Angeles, who expect the monies the Department is spending to be spent in a reasonable manner. He continued, stating the Mayor will not be happy if he finds out the Department is spending extra money for a consultant to assist a Retirement Plan Manager who does not know how to manage a particular group, which is not a wise way of spending the monies nor does it alleviate the responsibilities of a Board member to make the decisions that need to be made. Mr. Miramontes suggested the Board look for a resolution to get out of the situation and change the Acting Retirement Plan Manager and update the civil service exam qualifications to include knowledge of investment accounts.

Mr. Miramontes thanked the Board members and retired to the audience.

[Commissioner McCallum arrived at the meeting at 10:12 a.m.]

President Romero then acknowledged Mr. Conney Williams (Active). Mr. Williams approached the podium and introduced himself as a DWP active employee, and supervisor of the Retirement Section of the Retirement Plan Office. He stated the reason for his public comment was due to a request by the Board of the Retirement Plan Manager (Mr. Duamel Vellon) in January 2004, to submit a report stating the sequence of events involving the 1099R situation, with 13 pay periods in calendar year 2003. Mr. Vellon's report was submitted to the Board in the last meeting in February 2004. Mr. Williams expressed his concerns regarding comments made in the report that were untrue and questioned his ability to perform the duties that are required of him in the Retirement Office. Mr. Williams felt he needed to know personally what the action of the Board would be to address those specific issues since the report is a public document. Public statements were not only addressed before the Board, but addressed in the L.A. Times and Daily News, naming him personally. Mr. Williams wanted to know what the Board is going to do with Mr. Vellon's report and if he will have an opportunity to address comments in the report made about him personally as an employee of the Retirement Plan Office.

President Romero thanked Mr. Williams for his public comments and Mr. Williams retired to the audience.

President Romero stated Items 1 and 2 were submitted for consent approval as follows:

- 1. Approval of Board Meeting Minutes:**
  - a) February 18, 2004 (Regular)**
  - b) December 10, 2003 (Special)**
  - c) January 15, 2004 (Special)**
  - d) January 27, 2004 (Special)**
  
- 2. Termination from Monthly Rolls as of March 2004:**

**Retirement Resolution for March 2004.  
Termination from the March 2004 Family Allowance Roll: Jenna Pfefferle –  
Attained 18 years of age.**

Mr. Mirisola moved to approve Items 1 and 2 as recommended by staff. The motion was seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, Vazquez, McCallum, and Moore  
Nays: None

- 3. Klausner and Kaufman Report Regarding: Taxation of Benefits.**
- 4. Report of Payment Authorizations as of February 2004.**
- 5. Authority to Invest Short Term Investment for April 1 through June 30, 2004 (March/June/Sept/Dec).**
- 6. Security Transactions for the month of February 29, 2004.**
- 7. Short Term Investments as of February 29, 2004.**
- 8. Report on Long Term Investment as of January 31, 2004.**
- 9. Notice of Deaths as of February 2004.**
- 10. PCA Report – Memo regarding Transition Recap and Trading Cost Analysis**

President Romero reported Items 3 thru 10 were to be received and filed. Mr. Moore referred to Item 10 and asked for clarification regarding when adjustments to the remaining portfolio, by the Boston Company, should normally take place. He stated the remaining assets were tilted more toward holdings of mid-sized and smaller-sized companies. He stated he thought the adjustments would normally take place in the transition itself, not by the manager. Ms. Sara Bernstein, of PCA (Pension Consulting Alliance), explained Boston Company is still managing the portfolio and made minor adjustments, without incurring significant costs, based on advice of PCA, in order to make the transition more efficient and less costly for the Retirement Plan. Mr. Moore asked if there were specific actions suggested to Boston Company and how they make the determinations of what to do and what not to do, even for minor adjustments. Ms. Bernstein explained the Plan has a mid-cap portfolio being transitioned into a large cap stock portfolio, so if there are some stocks that can be transitioned to make it look more like a large cap portfolio then it should be done. There is always an overlap between mid-cap and large cap, and there will be some stocks that will fall into both portfolios.

Mr. Moore moved the above Items 3 through 10 be received and filed. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, Vazquez, McCallum, and Moore  
Nays: None

President Romero suggested changing the order of the agenda for discussion of Item 24 to accommodate a member to save him the wait of having to go through the whole agenda (Item 24 was discussed next).

- 24. Domestic Partner: Whether to accept registration of Domestic Partnership with the Health Plans Office in lieu of registration with Retirement Plan.**

President Romero stated he did not have any issues after having read and understood the item and recommended approval of the item. Mr. Mirisola moved to approve Item 24. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, Vazquez, McCallum, and Moore  
Nays: None

Ms. Calvache referred to the recommendations made on Item 24, page 24.2, “the Board could adopt such a policy by resolution at the next Board meeting” and stated she had some suggestions regarding this matter and asked if this should be discussed at this meeting or at the next Board meeting. President Romero suggested discussing it in the next Board meeting. Ms. Rubalcava inquired if Ms. Calvache would like Plan staff to include a draft of the policy. Ms. Calvache expressed she was concerned that many of the Department’s members are not aware when they fill out a domestic partner form with the Health Plans Office, they should also fill out another form in the Retirement Plan Office to include that domestic partner for Retirement benefits; therefore, she would like this item to be addressed at the next Board meeting and compose two separate forms in case a member does not want the domestic partner to be a beneficiary of the Retirement benefits. She stated she would want to indicate in each form that the member should call and file with the other office (Health Plans or Retirement) if they want the domestic partner to be eligible for health plan and retirement benefits. The Health Plans Office and Retirement Office should not be responsible for submitting each other’s forms for the member. President Romero acknowledged Ms. Calvache’s suggestions and suggested she provide Ms. Rubalcava with more detailed information so it can be included in the next Board agenda. Ms. Rubalcava stated she could also provide a few options to Ms. Calvache’s suggestions. Attorney Weisz Jones also offered assistance on what to put on the forms since the City Attorney’s Office has had experience with a similar situation and suggested sending a newsletter to the active members through the Department. Ms. Calvache emphasized the Department’s domestic partner issue is a big issue that needs to be addressed.

[The regular order of the agenda resumed.]

#### **11. PCA’s Quarterly Performance Review for 3<sup>rd</sup> and 4<sup>th</sup> Quarter.**

President Romero explained Item 11 was PCA’s Quarterly Performance Review for the 3<sup>rd</sup> and 4<sup>th</sup> Quarters. Ms. Bernstein noted the Quarterly Performance Review notes for the 3<sup>rd</sup> and 4<sup>th</sup> Quarter now separate the Death Benefit Plan and the Disability Plan from the overall Retirement Plan, which will be reflected in future reports as well. She stated PCA was working with staff, as well as Bank of New York (BNY), the Plan’s Custodian bank, to make the reports better. Ms. Bernstein referred to page 12 of the 4<sup>th</sup> Quarter Performance Review and explained the actual return compared for the quarter for the total portfolio was 7.2%, which compared to the policy benchmark was an underperformance. She explained the main reason for the underperformance was the overall allocation of cash. Ms. Bernstein continued to review the summary of the Comparative Performance – One-year Return chart showing the Domestic Equities and Domestic Fixed Income segments under performed compared to the policy benchmark, slightly under for the Domestic Equities and also slightly under for Fixed Income. She continued to state for the three-year period the portfolio has outperformed the Plan’s benchmark for the overall Plan and a great deal of it was due to Domestic Equity

Performance during the “Crash of 2001.” The Domestic Equities Portfolios were heavy in value stock, which outperformed, generally, in that period. Ms. Bernstein noted in the five-year return, there was also an out performance of about 1.1% in the total portfolio. Again, Domestic Equities contributed to the result in the five-year period. She referred to page XVI of the report and asked the Board members to view the portfolio on a risk-adjusted basis. The total portfolio, for both the 3 and 5-year periods, outperformed the blended policy returns on a risk adjusted basis – lower risk and higher returns than the benchmarks and the market proxies. She concluded her review stating the remainder of the report goes through an overall of the view of the economic and capital markets through the 4<sup>th</sup> Quarter and latest periods.

Mr. Moore inquired if she was covering only the September 30 Quarter. Ms. Bernstein replied this report was for the Fourth Quarter, which is the December Quarter and she added the Board members also have the September numbers, which she was not going to cover at the meeting. Mr. Moore asked Ms. Bernstein if PCA is giving the Board two quarterly reviews at a time, which happened last time also. Ms. Bernstein explained the Third Quarter report was available in January, but was not included in the agenda. She said that getting a performance report six months late is not allowing the Board to do its job.

Ms. Kuo asked Ms. Bernstein to explain why the Plan was over performing in the Domestic Equities but under performing in the Domestic Fixed Income for the quarter and the year. Ms. Bernstein replied the Quarter returns show the Plan outperformed the benchmark on the equity side. She stated that, on the Fixed Income side, one of the three managers outperformed the index and the two others under performed the index. Ms. Kuo asked Ms. Bernstein to further explain why one manager outperformed the index while the other under performed. Ms. Bernstein responded that she could go into further detail after the Board meeting since she does not have all the details for each manager with her.

Mr. Moore referred to a graph chart on page XVII on the Executive Summary, titled Growth of a Dollar – Latest 10 Years Total Portfolio, and stated it shows the portfolio as a whole staying above the 8% actuarial rate, which seems wrong. Ms. Bernstein responded she would look more into it and get back to the Board.

Ms. Rubalcava asked President Romero if he would like this item to come back on the next Board agenda – perhaps for Ms. Bernstein to discuss outstanding questions of Mr. Moore. Mr. Moore stated a simple phone call was fine and all he was trying to do was get a better understanding of it.

President Romero suggested deferring discussion on Items 12 and 15 until the end of the Board meeting. Item 12 was discussed out of sequence, see page 20. (Items 13 and 14 were discussed next).

### **13. PCA memo - Background information on reviews and audits.**

President Romero stated he read PCA’s memo. However he preferred to discuss this item once the Retirement Plan Manager situation is resolved. The Board can address

any audits at that time. Mr. Mirisola agreed with President Romero that the Retirement Plan Manager should make the decision on what they want to audit. Mr. Moore stated he felt the Board should be looking at what they want audited, not the Plan Manager. Mr. Romero stated it is good to include the Plan Manager in the process. Mr. Moore suggested appointing an Audit Committee, which a lot of pension boards have done, to focus on it a little more and then bring it back to the full Board. Mr. Vazquez concurred with Mr. Moore's suggestion. Ms. Calvache expressed the importance of an audit and asked if maybe the Board can form the committee before the next Board meeting. President Romero stated he preferred waiting another month to think about it. Attorney Weisz Jones said another month would not hurt the Plan. No action was taken but the issue of forming an Audit Committee would be discussed at the next meeting.

#### **14. PCA to provide the Board and staff with an RFI for a custodial bank.**

President Romero recommended going forward with PCA's draft RFI. Mr. Moore stated one thing that he was looking for that did not seem covered in the RFI was a rule for the custodian bank, in terms of transaction monitoring and looking at best execution. He inquired if there was language the Board can add to alert BNY this may be something the Board is interested in. Ms. Bernstein replied in the affirmative and stated that is found in the general questions in the RFI, but PCA can add an additional explicit question. Ms. Rubalcava stated she would like Ms. Kuo's name removed from the contact sheet on page 14.4 so all the RFP's go to Ms. Bernstein to avoid miscommunication or misunderstanding from anyone who applies for the RFP. Ms. Bhatia informed the Board that previously PCA has included the contact person's name within the body of the RFP, rather than as a person to contact so that there is only one point of contact. Ms. Bernstein clarified herself that she doesn't think that Ms. Kuo should be a point of contact but she should receive a copy. President Romero confirmed Ms. Kuo should still receive a copy of the RFPs. Ms. Bernstein explained a custodian performs a different role for the Board than the investment managers and the staff is much more actively involved with the custodian. PCA will definitely do the evaluation but they will need someone from staff to ask questions and it is preferable that staff has a copy so they know what is being talked about. Attorney Weisz Jones informed the Board the RFPs do not go to the individual Board members. That is a staff function, which the Board does not get involved in until the end in a formal setting. Mr. Vazquez asked Ms. Bernstein what time frame did she expect for sending these out and what response time is she looking at. Ms. Bernstein replied PCA should be able to get it out by next week, and then PCA will give the interviewees three weeks for a response, so we will be getting responses back within a month and then it will take time to evaluate them. Mr. Vazquez then asked the current expiration date for BNY. Ms. Bernstein replied the end of August. President Romero stated BNY would be willing to extend it a little bit if necessary. Ms. Bernstein agreed. Ms. Calvache motioned for the item to be approved. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, Vazquez, McCallum, and Moore

Nays: None

#### **15. Consideration of responses to the Plan's Request for Proposal (RFP) for Core Fixed Income managers and possible selection of a manageable number to be invited for interview.**

This item was discussed out of sequence, see page 19.

[The regular order of the agenda resumed.]

**16. PCA to report on the status of Delaware and their request not to participate in various RFP requirements.**

President Romero explained Item 16 pertains to PCA's report on the status of Delaware and they request not to participate in various RFP requirements. He said he understands there have been changes since the agenda was done. Ms. Bernstein stated staff was continuing to negotiate with Delaware but it was not clear if they were going to be able to conclude negotiations satisfactorily. She then requested Ms. Rubalcava or Ms. Kuo to fill the Board in on the status of the Delaware contract. Ms. Kuo then asked Attorney Wilkinson if the legal issues with Delaware were resolved. Attorney Wilkinson replied they have had productive contacts with their legal counsel. Some issues are unique to having an international manager. It looks like the things are moving right along except for the insurance issue. Ms. Rubalcava stated Mr. Avery Neaman (Risk Manager of the Department), Ms. Madeline Ramirez (also from Risk Management), Ms. Kuo and herself had a conference call with Delaware. Delaware is moving forward in terms of submitting applications and paperwork for the Board's insurance needs. Attorney Wilkinson stated the legal issues were referred to Equal Employment Opportunity and they have a very strong policy, which the UK and European Union also have, and they have provided materials to him that will be provided as part of a letter that satisfies the spirit of what the Board is trying to do. He thinks it will be perfectly acceptable to the Board. Some discussion ensued regarding whether to choose a backup manager in case the problems involving Delaware are not resolved. It was decided to include that agenda topic at the next Board meeting agenda for discussion.

**17. Consideration of PCA report relative to the reconciliation of Auditors Report versus PCA's June 2002 Investment Performance Report.**

Mr. Moore stated he would like to meet with Ms. Bernstein separately to get a better understanding of the information provided. He further stated that one of the problems is that having many different reports provided by our actuary, our auditor, and by our staff makes it very difficult even for someone who is relatively familiar with these numbers to see how they all fit together. He said he needs to get a little more familiar with it so he can just meet with Ms. Bernstein. Ms. Bernstein replied she was fine with that.

**18. Status Report - Response letter from TCW for review.**

President Romero explained Item 18 was a report on the status of a response letter from TCW for review. Attorney Weisz Jones stated TCW sent a letter stating they were going to look at the report that Mr. Mario Ignacio, a Principal Utility Accountant of the Debts, Invest & Risk Controls Section of the Finance Division, had done and do a letter in response. TCW attempted to answer the concerns the Plan had. Attorney Weisz Jones explained that in the letter, TCW asked for a meeting with the Plan. She stated the City Attorney's Office suggests staff meet with TCW. If it cannot be resolved, then turn the matter over to the City Attorney's Office and they will need to get all of the information and perhaps talk to some legal experts that are experts in this field and see what can be

done. Attorney Weisz Jones stated she normally does not recommend that a Board member be included in these kinds of meetings but because of Mr. Vazquez's unique position and his knowledge on the bonds and the financials, he might assist the staff. She further stated the Board needs to find out exactly where they are and get all of the documents together. Mr. Vazquez suggested that, instead of him, maybe the Board could have Mr. Ignacio, who has been involved in the research originally, be in that meeting with Retirement Plan staff and TCW. This will keep Mr. Vazquez out of the situation. President Romero asked TCW representatives in the audience if this is something they are open to do. Mr. Barr Segal of TCW approached the podium and answered in the affirmative. Attorney Weisz Jones stated the meeting should be arranged now, rather than later, so they have time to find out the facts and talk to everybody involved. President Romero asked Attorney Weisz Jones if she has access to a Securities Attorney to get advice. She said the Board could always find somebody who deals with bonds from the City Attorney's office. President Romero stated, as a result from this meeting, the Board is going to require a report before anybody agrees on anything. Mr. Vazquez suggested the Board allow the Department's financial advisor to attend this meeting to get an independent viewpoint from what the Board has been looking at. President Romero asked who the financial advisor was. Mr. Vazquez stated it is Public Resources Advisory Group, which is the financial advisor to the Department, as well as to the City. Attorney Weisz Jones stated the more information the Board gets the better. If the Board cannot resolve it the City Attorney's Office will ultimately have to get all this information so they might as well get it all up front anyway. The Plan doesn't lose anything by getting more input now. Ms. Calvache recommended Ms. Kuo be on the committee. Ms. Rubalcava and Attorney Weisz Jones both replied yes absolutely. No action was taken. Ms. Bernstein left the table and retired to the audience.

**19. City Attorney to provide information regarding confidentiality for staff when investing for fund.**

President Romero explained Item 19 asks the City Attorney to provide information regarding confidentiality for staff when investing for the fund. Attorney Weisz Jones stated Ms. Rubalcava, Attorney Wilkinson, and herself have worked out a generic confidentiality form for staff to secure when dealing with confidential information. She stated they have not had a problem yet but it is still good business practice and a good policy to address the confidentiality issue. President Romero asked if LACERS has something similar to the form. Attorney Weisz Jones stated she spoke with them and they did not have one but that is not to say that they should not have a confidentiality form. Ms. Calvache asked if this confidentiality form would be given to all employees on the staff. Ms. Rubalcava stated, in the discussion last month, it was specifically for the staff involved in investments to fill out the confidentiality form, but it is something to consider because staff deals with a number of private issues, such as divorce, separation, and disability. Attorney Weisz Jones stated a generic form was made for funding investments so the Board may want to do it with the funding of investments, to see how it works. Attorney Weisz Jones said she does not know if there is a need for everyone to sign it but she thinks everybody in the Retirement Office understands that they are dealing with peoples' personal information and she has never heard of any problems. They do understand what their obligations and duties are. Mr. Mirisola asked if anyone checked to see what the Department policies and procedures are for confidentiality, which might already be currently in place. He suggested staff should also consider a training session on what is confidential. Attorney Weisz Jones stated she

could check with the City Attorney's Office for DWP's policies on confidentiality because they did not check that and she will get back to the Board at the next meeting. Some discussion ensued regarding the disability process and worker's comp process in handling confidentiality. Ms. Calvache suggested having the unions evaluate the form as well, since the Board will have the employees sign the form, which means if they violate this form possible discipline will be taken. Attorney Weisz Jones stated she would work with Employee Relations and the unions. Attorney Weisz Jones thought the Board brought up some good issues and she will look into them. No action was taken. This item was tabled for the next Board meeting.

Mr. Vazquez left at 11:25 a.m.

## **20. City Attorney to report regarding the Brown Act and requirements.**

President Romero explained Item 20 was the City Attorney's Report regarding Brown Act requirements. Attorney Weisz Jones stated they tried the best they could to give as much information on the Brown Act and the use of e-mails. She explained the purpose of the public Board meeting is for everybody that comes to the Board meeting to get the benefit of all the information, as well as the public. She further explained a violation of the Brown Act occurs when an email is shared between two Board members, then is shared with a third member, who then talks to a fourth member, which prevents all Board members and the public from getting the information in those emails. Mr. Moore stated one thing that was very useful in terms of Attorney Weisz Jones' report was the statement at the top of page 20.3, which emphasizes ways of communication that are not a violation of the Brown Act, and by staff providing all Board members information is not a violation of the Brown Act. When staff provides information and they give it to all the Board members they are all equally informed. Attorney Weisz Jones stated when staff emails something to the Board, and a Board member responds, and another Board member responds and so on, then the Board is violating the Brown Act, which tries to discourage anything from being discussed behind closed doors when it deals with the public's business. Attorney Weisz Jones stated the Brown Act prohibits a quorum privately discussing and getting a consensus on a public topic, but does not prohibit two people talking or the Plan Manager sending an email to one or two Board members. Ms. Rubalcava asked for clarification whether it is okay to send an update on something requested by the Board during the Board meeting. Attorney Weisz Jones confirmed it was not a violation of the Brown Act. Attorney Weisz Jones stated she had the Mayor's directive on contracting to discuss. She stated the Mayor has issued a directive and it does apply to the Board, and Ms. Rubalcava and herself will work on making sure the Board receives directives from the Mayor's office and the Ethic's Commission rather than through the DWP Board of Commissioners. Attorney Weisz Jones stated it was imperative the Board be notified of the Mayor's directives so she will pass it out as an informational item, which deals with the issue of Commissioners sitting or having any contact whatsoever in the contracting process, when something is going to come before the Board. The directive does not say that the Board cannot interview the managers to whom they are going to give contracts to in public session. As long as everything is being done in public on a public agenda, where the public has a right to attend and everything's done in open session, there is no prohibition. No individual commissioner can be involved in the contracting process from the time the Board sends the RFP to the time it comes to the Board for the Board to approve the contract. Attorney Weisz Jones informed the Board that the City Ethic's Commission just drafted a new ordinance

dealing with fundraising and solicitations by commissioners, which applies to the Retirement Board. She continued to state that the Ethic's Commission is holding Brown Act, Ethics Law, and training on this new ordinance in April, which will address any kind of appearance of impropriety and potential conflict when Board members get involved, not in a public session, with these contracts. Mr. Mirisola stated that, before PCA was hired as the Board's consultant, he wanted an RFP question for all of the Board's contracts to know if that manager or anybody in that firm was contacted by a commissioner or the mayor, and he wanted to know if any of those firms talked to anybody and what they talked about, which was eliminated from the RFP at the direction of the City Attorney's Office. Attorney Weisz Jones stated she didn't think the City Attorney's Office instructed the Board to do that. Mr. Mirisola stated that was how it was explained to him at the time and asked if that question can be inserted now. Attorney Weisz Jones stated that is something aside from the Mayor's directives and the ordinance, and if the Board wants to look at additional things to put in the RFPs, that is something for the Board to do. No action was taken.

**21. Consideration of Authority to invest cash in Nations Treasury Reserve Investors Class Fund #272 (money market fund) in excess of \$1 million.**

President Romero explained Item 21 was consideration of Authority to invest cash in Nations Treasury Reserve Investors Class Fund #272 in excess of the current limit. Mr. Moore moved adoption of Resolution 04-93. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore  
Nays: None

**22. City Attorney to provide update – 1099Rs issued for 1999 Tax Year.**

President Romero explained Item 22 was for the City Attorney to provide an update on the 1099Rs issued for 1999 tax year. Attorney Weisz Jones stated the City Attorney's Office is working on it and getting more information on the statute of limitations with IRS. It appears, according to Mr. Bob Klausner, one of the Board's attorneys, the IRS has put out something concerning these kinds of things. Mr. Mirisola asked if Mr. Klausner was charging the Board for the access to this information. Attorney Weisz Jones stated he was not. No action was taken.

**23. Consideration of changes to the Plan's Statement of Investment Goals and Guidelines (IGG) to update emerging markets, fixed income and conflicting language.**

President Romero explained Item 23 was consideration of changes to the Plan's statement of Investment Goals and Guidelines (IGG) to update emerging markets, fixed income and conflicting language. Mr. Mirisola asked if this was the latest version from PCA. Ms. Bernstein stated she was sure it was the latest version. Mr. Moore moved for adoption of Resolution 04-94. Seconded by Mr. McCallum and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore  
Nays: None

**24. Domestic Partner: Whether to accept registration of Domestic Partnership with the Health Plans Office in lieu of registration with Retirement Plan.**

This item was discussed out of sequence, see page 3.

**25. Approval of Retirement Budget (including Annual Personnel Resolution) for Fiscal Year 2004-2005.**

President Romero explained Item 25 was the approval of the Retirement Budget (including Annual Personnel Resolution) for fiscal year 2004-2005. Mr. Moore stated on page 25.5, where it talks about the Department contributions it shows the Department contributing, in the proposed budget, \$39,840,000. When the Board had the actuary here before us he made the recommendation in his final report that the Department contribute on the Plan normal cost, which would have been \$59.8 million. He expressed his concern that the numbers did not line up exactly in terms of the budget year versus the recommendations made by the actuary. He then asked if this is incorporating the recommendations of the actuary. Ms. Bhatia responded it was and if he looked at the current service, which is the \$39.8 million mentioned, and then there is a minimum pension that incorporates the actuary's recommendation. Mr. Moore then stated on page 25.3, the report shows an interest expense that is anticipated for this fiscal year, and asked what this \$210,000 was for. Ms. Bhatia responded there were a number of beneficiaries that were found that haven't been located before, so the Plan requires that we pay interest on their benefits. Mr. Moore inquired what do the figures consist of, showing two items down toward the bottom for \$460,000 for office equipment and software and \$626,000 for professional services. Ms. Bhatia responded and explained the \$460,000 is – the \$200,000 that was budgeted in the past for office remodeling and then IT has a policy that one-third of the staff members' equipments (software and hardware) get replaced, so that is another \$260,000, and that totals to \$460,000. She continued to explain the professional services consists of two components: one is last year the Plan budgeted for changing the entire computer system in the Retirement Office and that was based on an estimate from LACERS (Los Angeles City Employees Retirement System) and that was \$600,000, which was kept in there, and the rest concerns booklets we publish once a year – the Employees' Benefits Statements. Mr. Moore clarified that it looks as though staff was running at about 55% of staffing that is actually authorized. Ms. Bhatia stated the Retirement Plan staff has 11 vacant positions right now. Mr. Rubalcava stated that in the organizational chart there is an entire section for Computerization. It is approximately six to seven positions that have not been filled. In terms of the other vacancies, staff is working on scheduling the interviews and moving forward on the vacancies. Ms. Rubalcava informed the Board the staff's goal has been, in the last month, to fill three positions that are open – an Executive Secretary, a Sr. Clerk Typist, and Sr. Utility Accountant. Mr. Moore stated on page 25.4 under each Fund – the Retirement, Disability, and Death Benefit Fund, the report shows deficiencies in the amounts available for investment and those deficiencies are growing as opposed to decreasing. He asked when the Board could see these numbers going back into the positive. Ms. Bhatia stated this particular format does not include capital gains. She explained it only reflects interest income, dividends, and so forth, but it does not include gains from sales of securities. Those are reflected separately, so even though it does show negative, for the budget and for the mayor, this is the format required. However, the actual entry receipts brought forth in terms of recorded realized gains are in the

financial statements. Mr. Moore stated it is unfortunate it has to be done that way because it does not present the whole picture. He asked if the Board approves the budget, could the Board change it if it chose to, or what can be done to make the report more clear. President Romero explained to Mr. Moore that what this Board did in the past was send the report to the Board of Commissioners, and it would come back to the Retirement Board for approval just to make sure there were no changes to the recommendations for this Board. Ms. Bhatia stated the Plan Office had a review with Jeff Peltola, the Budget Director, yesterday, and so the changes are generally based on the Department's goals in terms of staffing and so forth. He had some questions and we provided the answers. Mr. Moore asked Ms. Bhatia if she was anticipating changes from what is before the Board now. Ms. Bhatia stated in the negative, but she wanted to mention the Retirement Plan Office is asking for one position, that of a management analyst, and that is to take over the training program and that was a question that Mr. Peltola did raise as to whether we should fill staff's current vacancies as opposed to asking for another position. Ms. Calvache asked about the following positions - Principal Clerk Utility (PCU), Utility Executive Secretary (UES), Management Aide (MA), Principal Utility Accountant (PUA) and Utility Administrator (UA). Ms. Bhatia stated they are substitute positions. They are not funded. We kept them as substitute positions to provide substitute authority in case there is a need to fill. She continued to explain it allows staff the flexibility in case there are vacancies that cannot be filled in another way. Everything is just the same except for the MA, which has five positions but we had four last year. Ms. Calvache stated she is aware of the MA, and she supports it because it is important to train future retirees on the procedures for retiring. Mr. Moore moved adoption of Resolution 04-95. Seconded by Mr. McCallum and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore  
Nays: None

## **26. Retirement Plan Manager's comments.**

### **a) Legal Opinions.**

The Board members had nothing to discuss regarding Legal Opinions and went straight to discussing item 26c, General Items.

### **b) DWP Plan Newsletter for retirees (March 1, 2004 Edition).**

The Board members had nothing to discuss regarding the newsletter and went straight to discussing item 26c, General Items.

### **c) General Items.**

#### Status Report regarding insurance requirements for the Investment Managers

Ms. Rubalcava stated that all of the RFPs have stated the need for insurance and listed all the Board's requirements. This is a chart showing where the Plan Office is at with some of the Investment Managers in terms moving forward with fulfilling their requirements for insurance. It is taking longer than expected for the Investment Managers to meet the insurance requirements. She stated Ms. Kuo, herself, Mr.

Neaman (Risk Manager of the Department), and Ms. Ramirez (also from Risk Management) sat down one afternoon and started to make conference calls with many of these investment managers that were not moving and not providing proof of insurance. After the conference calls, many of them are moving forward with providing the insurance information but there are some that have not. Staff will come back at the next Regular Board meeting with a status update. She stated the other item she wanted to mention was that last month Cecilia Weldon came and discussed the 1099Rs. She talked about being able to provide the withholding adjustments to the retirees during the month of March; however, the corrections of the 1099Rs took up more time than expected so she wanted the Board to know that the withholdings will be adjusted in April, not March.

#### Placing MFS/INVESCO "On Watch" Status

Mr. Moore stated he would like to commend MFS based on a report in the LA Times this morning that they have announced that they have stopped engaging in soft dollars. He thinks that is a good step for the firm as part of their reputation-cleaning act.

#### **27. Future agenda items.**

Ms. Rubalcava stated she wanted to do a recap for next meeting so that the Board is on the same page. Ms. Bernstein stated she was waiting to do the Board's high yield search perhaps on the next Board agenda, if the Board wants it there. President Romero confirmed it should be included in the agenda. Ms. Rubalcava asked Mr. Harrington to recap what items will be put back on the next Board meeting agenda. Mr. Harrington stated when PCA was doing the performance report there were a couple of outstanding questions by Mr. Moore and Ms. Kuo, which PCA is going to address in the next Board meeting. He continued the Board is deferring a decision about an audit until there is a new Plan Manager, but next month some members of the Board want an item on the next agenda about an audit committee. Mr. Harrington then stated there would be a further status report about Delaware, if there is any more information about Delaware, and the possibility of choosing a backup alternative for Delaware, which the Board was not able to discuss at the meeting. Mr. Moore had questions about reconciliation and wanted that put on the agenda as a Receive and File item. Mr. Harrington stated that, if the meeting with TCW takes place before the next Board meeting, and there is information to report back to the Board, that will also be included on the agenda. He continued to state the City Attorney would report more on confidentiality policies, especially privacy issues. Mr. Harrington then stated that, on the domestic partner issue, the Plan Office plans on reporting some general policies and procedures about how to deal with similar situations. He then stated that Mr. Mirisola wanted the discussion of putting in RFP requirements that managers report to the Board recent contacts by Commissioners and City Officials. Attorney Weisz Jones stated she will give the Board what the City Attorney's Office has and then the Board can look at it, review it, and see what the Board is comfortable with. Mr. Harrington stated that, if the City Attorney's Office has more information about the 1099Rs, then that will be on the agenda. He continued that the PCA item about the high yield search would also be included in the next meeting. Ms. Rubalcava stated she wanted to add to the agenda BNY's (Bank of New York) contract extension, including provisions, for the International Market.

## **28. Merrill Lynch Investment Management – Large Value Team – Exits Firm.**

President Romero stated he was a little concerned because of the way it was worded. Attorney Weisz Jones stated there is a corrected posted agenda. President Romero explained Item 28 states “consideration of recommendation to terminate and possible action to determine active manager for Large Value Funds, Merrill Lynch Investment Managers”.

President Romero acknowledged Mr. Joe Silver and Obie McKenzie of Merrill Lynch at the podium. Mr. Silver and Mr. McKenzie approached the podium.

Mr. Silver introduced himself as the director of Public Funds business in the West Region and introduced his colleague Mr. McKenzie as the head of the Public Funds team. He stated he appreciated the opportunity to go before the Board to address the recent change to the four-member team for the large cap value equity strategy, which was communicated in a letter to President Romero last week. He continued there are three things that he and Mr. McKenzie would like to touch upon this morning: the investment process, the investment team, and where you go from here. He stated a few quick facts on the investment process, which began in 1978. This process has remained virtually unchanged. He continued saying that as the head of the former portfolio team he often states “we view ourselves as stewards of the process”, which has consistently delivered superior results over its history and moving forward this process will remain as is. His second point was about the investment team. The new team is headed by Joel Humsfeld. He has been managing portfolios at Merrill Lynch for over 25 years. He is credited with being one of the original architects of the large cap value process. Mr. Humsfeld is supported by three other investment professionals, who have over 50 years of combined industry experience. Three of the four members of the team hold either or both the CFA designation or an MBA. We are very confident in the breadth and depth of the knowledge and experience of this team in conjunction with the process that we will provide superior results in the future. Mr. McKenzie stated turnover is never a positive experience and this turnover for them has not been a positive experience, so he acknowledged that to the Board. His direct intent and purpose this morning was to ask the Board to keep Merrill Lynch on the watch list for another three months. Merrill Lynch does have a team in place. The portfolio is fully invested and there are 35 to 40 holdings in the portfolio. Mr. McKenzie informed the Board that there is very low turnover in the portfolio. As Mr. Silver has mentioned, this is a very experienced team. We ask for the privilege of bringing that team before you so you can see what it is we’ve done to meet this particular challenge. One of the advantages of being a multiproduct and a deep firm, like Merrill Lynch, professionally, is that we have people to step into the breach when something this unfortunate happens. The Board’s portfolio is fully invested, insured, and protected, and is performing quite well. Also, to meet the challenge Merrill Lynch recognizes that this is an unfortunate event, and he is here to offer the Board a fee holiday as well, if in fact the Board is willing to keep Merrill Lynch on the watch list for three months. Merrill Lynch’s fee to the Board on an annual basis is approximately \$800,000 a year - a three months holiday would mean a savings to the Board of \$200,000 of that fee, so during the period if you are willing to keep us on the watch list for three months, there will be no fee for our managing that portfolio. Merrill Lynch would like during that period to be allowed to bring the investment team before the Board and PCA, so it can be shown what Merrill Lynch understands about the team – that it has

depth, experience, and they are stewards of the process which Merrill Lynch has had for 25 years. Thank you.

President Romero inquired if the goal of the expected three months is to get to know the team and if Merrill Lynch expects a higher turnover in the future. Mr. McKenzie stated this is an opportunity to come before the Board, so the Board can see our investment professionals and open confidence in their ability to do what they have signed to do in the contract and to have them reviewed by PCA. PCA has not had an opportunity yet to see the new investment team. He stated Merrill Lynch wants the Board to have an opportunity to see the investment team. The risk of a three-month waiting period is virtually nonexistent. The portfolio is fully invested. There is low turnover in the portfolio. He continued to state that Merrill Lynch owes it to the Board to be not only sensitive to what was agreed in the contract but to be cost sensitive as well. Mr. McKenzie informed the Board that to move this portfolio to another manager is going to be expensive. The transition cost alone could be as much as a half million dollars – as opposed to the saving of \$200,000 in the fee moratorium. Merrill Lynch brings that to the Board as an offer in the hope that the Board will give them three months so the quality of their professionals can be seen and so the Board will gain confidence to keep us employed as your Large Cap Value Managers. Ms. Rubalcava requested having Mr. Neaman provide the Board with an update in terms of the insurance information staff has and has not received from Merrill Lynch. President Romero asked Ms. Bernstein to also approach the table.

President Romero acknowledged Mr. Neaman and Ms. Ramirez. Mr. Neaman stated Merrill Lynch recently fell out of compliance on the three basic insurance coverages: general liability, auto liability, and workers' compensation. He continued to state that to date staff has never had proof of insurance for crime. Most importantly, Merrill Lynch is one of the unusual firms that is requesting to self-insure one half of their professional liability risk, which Mr. Neaman believes is unacceptable. He has discussed this with Mr. Silver several times. Mr. Neaman stated his view in Risk Management is that professional liability, especially errors and omissions, is the most important risk of any money manager and staff requires \$50 million of insurance for that risk. He continued to explain that Merrill Lynch is requesting permission to self-insure one half of the risk or \$25 million of liability. Staff has taken the position in risk management that that is unacceptable. Mr. Neaman further explained that Risk Management is looking at self-insured retentions or deductibles for the other managers in the range between \$250,000 and \$500,000. This is acceptable to the Board, but a self-insured retention of \$25 million is not. That has been the significant sticking point to bringing Merrill Lynch to full compliance. President Romero asked Mr. Silver to approach the podium. Mr. Silver stated it is important to know that with respect to self-insurance of \$25 million, this is not technically what Merrill Lynch would deem as pure self-insurance. Merrill Lynch has actually, from the treasurer of Merrill Lynch & Co., submitted a letter of guarantee, an absolute guarantee, to the fact that we will pay \$25 million if there is any type of liability issue that takes place. Any litigation will be between the Board and the insurance company, which is Travelers, in any settlement that is reached, Merrill Lynch will simply apply an additional amount over \$25 million up to the cap of \$50 million. Mr. Neaman stated he still considers that to be self-insurance. There would be nothing in his mind to stop Merrill Lynch from breaching their guarantee. The Board would then find themselves litigating against Merrill Lynch to recover that additional \$25 million dollars. Mr. Silver stated he understood Mr. Neaman's concern. However, the letter of

guarantee submitted by Merrill Lynch, which has been provided from the Treasurer of Merrill Lynch & Co., Mr. Russell Stein, states that "upon the determination of the insuree [Travelers], to pay the claim for a primary liability, Merrill Lynch & Co. shall become immediately liable for the due and prompt payment of such self-insured amount promptly upon demand made by counter party to Merrill Lynch & Co." Mr. Silver stated that addresses Mr. Neaman's concern. Although Mr. Neaman's point is very well taken, Merrill Lynch has done this for other companies, and Merrill Lynch is not going to put itself in a position to fight any claims. It is strictly between the Board and the insurance company. Mr. Neaman stated he disagreed with Mr. Silver because he understands that, once Travelers pays their \$25 million, Travelers is out of the picture. The Board will ask Merrill Lynch for the other \$25 million. Travelers does not have anything to do with the discussions after that. Mr. Silver stated that was true in part but what it really comes down to is the Board needs to feel comfortable that Merrill Lynch & Co., a doubly rated company with \$4 billion last year in net earnings, has the a financial stability to stand behind a \$25 million claim in the event that happens. If the Board wants, Merrill Lynch can provide a letter of credit as an option. Mr. Silver stated that the reality is most commercial banks, who provide a letter of credit, have a lower rating than Merrill Lynch & Co. If there are other discussions or other things to put in writing to make the Board feel more comfortable other than what is already put in writing in this guarantee, that is where Merrill Lynch & Co. stands. President Romero asked Ms. Bernstein to state her position and asked if three months was reasonable or unreasonable, and if the insurance was reasonable or unreasonable. Ms. Bernstein stated the memo before the Board was written before PCA had known of Merrill Lynch's offer for a three month on watch time period, where the Board would not pay fees to them. PCA's position is to recommend that the Board terminate Merrill Lynch and look for a second manager. This has nothing to do with any of the insurance issues, but is just based on the turnover of the portfolio managers of that account. However, there is still some merit to the fact that, if the Board wants to do it two months from now or three months from now, there will probably not be much activity in the portfolio or any significant losses over that time frame. Mr. Moore asked if the Board gave Merrill Lynch the time period that they are asking for, what basis would PCA have to evaluate what took place and past performance in order for the Board to gain some comfort that these new managers were going to perform for us as well as the previous managers. Ms. Bernstein stated she does not know whom Merrill Lynch is going to put forward as managers. PCA would evaluate them on the same basis as any other investment manager, but clearly Merrill Lynch is in a position where this is a pretty dramatic change, particularly for a company that is already on watch. Even if the Board waits three months, not much is it going to change our opinion. Ms. Bernstein emphasized to the Board that they are putting themselves at a higher risk just from a new team working on an existing mandate. She stated PCA does not recommend that. She cannot give the Board any evaluation of what PCA is going to present in the next two or three months because PCA does not have any information on that. She stated today the Board has lost a major portion of the people managing the Retirement Fund under this mandate. Mr. Mirisola informed Commissioner McCallum on how MFS and Merrill Lynch were hired by the advice of PCA. He continued to inform Commissioner McCallum that, with somewhat questionable negotiating by Merrill Lynch, they were able to convince Board members to allow them a second chance. They were added, with a great discussion, against his [Mr. Mirisola] wishes, to the interview list, after the fact, and they also added MFS. Mr. Mirisola emphasized that the Board ended up hiring both and now MFS is on the watch list and Merrill Lynch has had significant personnel changes. He stated that Merrill

Lynch did not make the final cut because PCA said they could not meet the insurance requirements, which they still have not met. They then ended up getting hired and we find ourselves in this position. He stated further the Board should cease all trading and give the portfolio to another investment manager to watch, and make a decision on it today. Mr. Mirisola continued, that if based on Ms. Bernstein's recommendation things are not going to change, Boston Company is already babysitting some of the Board's portfolios and does it for a reasonable fee. President Romero stated the Board needs to separate the issues and decide whether they are going to retain Merrill Lynch or not. The Board can decide whether the three months is fine or whether the Board is going to another money manager. Mr. Moore stated he thinks that the first decision will be easy to make and the second decision is to decide whom the portfolio should go to if the Board decides not to retain Merrill Lynch. He stated he is not yet comfortable making that choice, although he sees some good firms. Mr. Moore suggested having further discussion and a vote on the first issue, whether or not the Board wants to keep Merrill Lynch or not, and then debate the second issue, which is if the Board chooses not to keep them, who to go to and how to deal with the transition and interim stewardship of the money. Commissioner McCallum stated he agreed. Ms. Calvache stated she agreed also. President Romero took a vote on whether to retain Merrill Lynch & Co. Mr. Mirisola motioned to terminate Merrill Lynch. Seconded by Commissioner McCallum and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore

Nays: None

Mr. Moore suggested having a second motion to ask Merrill Lynch to cease trading. President Romero thanked Merrill Lynch for being part of the process and keeping the Board informed on a timely basis of the developments with the whole team leaving. He understands that was not anticipated but as trustees, the Board members need to do what is best for the Plan. The Board did hire the team that had that historical performance but is now gone. Ultimately, the Board has to go with what it is comfortable with. The consultant is advising the Board to terminate Merrill Lynch. He acknowledged the Board still values having Merrill Lynch as the Board's manager in the Active Value Strategy and hopes to continue in that relationship. Mr. McKenzie thanked the Board for the privilege of coming and making a statement. Ms. Rubalcava clarified the Board agreed to terminate the Large Cap only, and President Romero concurred. Mr. Mirisola added he would like to move to vote to have Merrill Lynch cease trading on the account and have the acting Retirement Plan Manager consult with Bank of New York to manage that portfolio - babysit it as they have been doing. President Romero stated one of the concerns he has is to determine whether Boston Company is willing to do it. He then asked Attorney Weisz Jones how does a 30-day clause conflict with another money manager watching the portfolio immediately. Attorney Weisz Jones replied that the Board has to inform the current money manager and send them a formal letter saying, "As of today, we are giving you a 30-day notice that we are terminating the contract". She stated PCA, staff, and the money managers probably have more experience with how this is handled. Ms. Bernstein stated she did not have much to add at this point. President Romero suggested to Boston Company, while they babysit the portfolio, maybe they can reoptimize the total portfolio. Mr. Harkins, a representative of Boston Company, approached the podium and asked the Board if their goal would be to have assets now with Merrill just be put back in the remnant portfolio. President Romero responded in the affirmative. Mr. Moore wanted clarification on how the process works;

assuming Boston Company is going to go ahead with it. Mr. Mirisola stated he would prefer to keep the accounts separate for the meantime. Ms. Bhatia stated this might be appropriate, especially if the Board is going to select another Large Value Manager. Ms. Bernstein added that, since the Board is going to select another Active Large Cap Value Manager, the Board should try to maintain the Merrill Lynch assets as an Active Large Cap Value account. There will be transition costs, but it will be more efficient keeping it as a separate account. Mr. Mirisola stated as a motion that the Board needs to direct staff to notify Merrill Lynch to cease trading on the account, and negotiate terms with Boston Company as a Large Cap Value Manager to manage the portfolio of Merrill Lynch during the duration of finding another manager to replace Merrill Lynch. Attorney Weisz Jones added the Board is going to cease trading consistent with when Boston Company can take over the portfolio. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore  
Nays: None

Ms. Rubalcava stated Boston Company has turned in their professional liability and crime insurance but workers' compensation, general liability, and auto liability is still outstanding, so if Boston Company can complete that, it would great. Mr. Harkins stated it is just a matter of filling out a form. All that is driven by central operations. Mr. Lou Mastros from BNY stated when it does come time to cease trading that BNY would also like a copy of that authorization. From an administrative standpoint, we can move extremely quickly. All we have to do is change the name on the account.

President Romero asked the Board when they preferred to reevaluate the information about alternative managers. Ms. Bernstein stated PCA could give the Board an update on the Large Cap Active Value managers that the Board has already interviewed. Mr. Mirisola stated he would like Ms. Bernstein to indicate the types of equities in each portfolio and give an analysis as to how much overlay there is between these other managers so the Board can evaluate the transition cost. President Romero acknowledged Mr. Dave Mallechek of BNY as he approached the podium. Mr. Mallechek agreed with Ms. Bernstein to keep the accounts separate. There will be excellent opportunities for transfers and that will keep the transaction costs to a minimum. Ms. Bernstein stated the Board does not want to make a long-term investment manager decision just on short-term transition costs. President Romero asked the Board if they were comfortable interviewing investment managers on April 7, 2004 at a special meeting. The Board agreed to hold a special meeting on April 7. Mr. Mirisola requested that PCA give a summary and an update of the potential investment managers and asked if staff would provide the minutes for the interviews so we can all have a chance to reread the first interviews with the investment managers. Ms. Bernstein responded PCA would provide a summary update, including transaction costs.

Ms. Calvache thanked Mr. Neaman's staff for the hard work with all the managers. Mr. Mirisola also expressed his appreciation for the insistence on the Waiver of Subrogation. Mr. Neaman stated there is a high standard being set, but it is very important protection.

President Romero called for a brief recess at 12:40 p.m.

[Recess]

The Board meeting reconvened at 12:45 p.m.

**15. Consideration of responses to the Plan's Request for Proposal (RFP) for Core Fixed Income managers and possible selection of a manageable number to be invited for interview.**

President Romero explained Item 15 is consideration of responses to the Plan's RFP for the Core Fixed Income managers and possible selection of a manageable number to be invited for interview. He stated those who met the minimum requirements are the ones that the Board has included. For the last search, TCW had reservations and chose not to be part of the last interview process. He asked Ms. Bernstein if this has changed. Ms. Bernstein replied TCW responded to the RFP and they have not indicated any changes so PCA has included them on this list. President Romero asked the Board if they felt comfortable with TCW being included, or are the Board members wasting their time by interviewing TCW. He added he was not comfortable and prefers not to include them in the interview. President Romero suggested interviewing those shaded at the top with the exception of TCW. Ms. Bernstein informed the Board some managers meet the Board's minimum requirements but do have some caveats in the insurance area. The Board is knocking out some leading managers due to the insurance requirements under the current insurance guidelines. Discussion ensued on which investment managers the Board preferred to interview for the Core Fixed Income Market. Ms. Bernstein said the Board is on the extreme side in terms of risk management. She continued that it has an impact on narrowing the number of managers the Board can look at. Ms. Rubalcava stated the managers came to the interviews and were asked if they could comply with the requirements and the answer was yes. Now to come back and say no we cannot, is not fair to the Board and the work PCA put in when the RFP was put together. Ms. Rubalcava suggested when these investment firms come to the interview that they bring someone who comes from legal or from their insurance department. When speaking with these firms, they say it was their marketing people who said yes to the insurance requirements not their legal people. Mr. Mirisola suggested choosing the shaded six firms and then sending them a letter asking if they will comply with the insurance requirements and getting a commitment in writing from them. If not, then the Board does not interview them. Rather than having them come and tell the Board they will comply as a sales pitch, put it in writing. Commissioner McCallum pointed out that if the investment firms that do not meet the minimum qualifications are excluded the Board will only be interviewing three firms. Mr. Mirisola responded at that point the Board would then select two or three other firms to be interviewed. President Romero acknowledged Mr. Tom Harrison at the podium. Mr. Harrison introduced himself as a representative of Wells Capital Management and thanked the Board for the opportunity to speak before them. He brought to their attention that Wells Capital Management is one of the top ten firms meeting the requirements of the RFP. He continued to state Ms. Bernstein has made some very salient points about a couple of their competitors who have been around a very long time and have done quite well over the course of time. Mr. Harrison stated Wells Capital Management is what he would call an "up and comer". They have performed exceptionally well over the course of time since they acquired Montgomery Asset Management in the beginning of 2003. They were very fortunate to pick up a very sizable account with the Los Angeles County Retirement Board System. He stated he brings this up only because the Board has afforded him the opportunity to do so and he is appreciative. He wanted to ask the Board for their consideration. Mr. Harrison retired

to the audience. Mr. Mirisola asked a representative from Standish Mellon if there were any changes involving them concerning the insurance issues. Mr. Harkins from Boston Company stated Standish Mellon fully complies with all the Board's insurance requirements. Mr. Mirisola asked Ms. Bernstein if Standish Mellon had a five-year performance; to which she replied no. Mr. Mirisola brought up a concern he had about Standish Mellon's standing in 17<sup>th</sup> place and asked if it was because they did not meet the minimum requirements to which they stated today they have. Ms. Bernstein replied it was a combination of reasons why Standish Mellon was ranked 17<sup>th</sup> place, and it was not because of the insurance qualifications. Mr. Mirisola was concerned the information on the RFPs was not updated. Ms. Bernstein stated she sent an update request in September to all 27 managers and PCA included all the responses in this survey with PCA's ranking. Performance was updated as well as any changes in litigation issues or ownership issues or changes in portfolio managers, etc. More discussion ensued about what firms the Board wanted to interview for the Core Fixed Income Portfolio. Mr. Mirisola then moved adoption of Resolution 04-91. Seconded by Commissioner McCallum and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore  
Nays: None

**12. Consideration of responses to the Plan's Request for Proposal (RFP) for Emerging Market managers and possible selection of a manageable number to be invited for interview.**

President Romero explained Item 12 was a consideration of responses to the Plan's Request for Proposal (RFP) for Emerging Market managers and possible selection of a manageable number to be invited for interview. Ms. Bernstein explained to the Board they are looking to select two managers and these mandates will be about \$50 million each. She added there are only four firms who meet the minimum requirements with no caveats, including The Boston Company who has said today they have complied with all minimum requirements. President Romero suggested staying consistent and interviewing the first six firms on the list. Discussion ensued on which firms to choose from the list. Mr. Mirisola stated the firms they agree to interview are T. Rowe Price, Marvin & Palmer, Boston Company, SSGA, Baillie Gifford, and DFA. Ms. Bernstein also informed the Board they need a date to interview these firms and she asked if the Board would want staff to contact the firms who did not meet the minimum requirements. President Romero replied that will be discussed at the next Board meeting and he would like staff to do the same with these firms as was done for Core Fixed Income. President Romero then moved adoption of Resolution 04-90. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Mirisola, McCallum, Salas, and Moore  
Nays: None

President Romero thanked the Board and the meeting was adjourned at 1:17 p.m.

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JAVIER ROMERO  
President

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ADRIANA RUBALCAVA  
Acting Secretary

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MOHAN WEERASINGHE  
Recording Secretary