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

MEETING – May 19, 2004

Present:

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

Absent:

Frank Salas	Acting General Manager

Others Present:

Adriana Rubalcava	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Plan Manager
Lesley Kuo	Investment Officer
Tom Harrington	Consultant
Irene Colon	Recording Secretary
Sarah Bernstein	PCA (Pension Consulting Alliance)
Mike Wilkinson	Deputy City Attorney

The meeting was called to order at 10:08 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Rubalcava indicated there was quorum of the Board.

PUBLIC COMMENTS
President Romero inquired if there were any public comments. Ms. Colon indicated there were public comments related to items 14 and 15.

President Romero inquired if any discussion was needed regarding consent items 1 and 2. Mr. Moore referred to page 1a.14 of the Board agenda packet (4th paragraph), wherein it states "the last several years it seemed to be performing better than 30-35%". He stated he wanted clarification that the percentage was referring to the P/E (price and earnings).

1. **Approval of Board Meeting Minutes:**
   a) **February 11, 2004 (Special Investment)**
   b) **March 17, 2004 (Regular)**
   c) **April 21, 2004 (Regular)**

2. **Termination from Monthly Rolls as of April 2004.**
   Retirement Resolution for April 2004.
   Termination from the May 2004 Survivorship Roll: Darlene L. Jensen – death.
   Termination from the May 2004 Permanent Disability Roll: Jerald Rosemond – retired.

Mr. Mirisola moved adoption of the above items 1 and 2 on consent with the noted correction. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

3. **Report of Payment Authorizations as of April 2004.**
4. **Distribution of Securities by Type and Class as of February 29, 2004.**
5. **Equity Investments as of February 29, 2004.**
6. **Report on Long Term Investments as of March 31, 2004.**
7. **Short Term Investments as of April 30, 2004.**
8. **Statement of Investments Owned as of February 29, 2004.**
9. **Notice of Deaths as of April 2004.**

Ms. Calvache moved to approve items 3 through 9 to be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

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

10. **PCA's Quarterly Performance Review for 1st Quarter 2004.**

Sarah Bernstein (PCA) approached the Board table.

President Romero recognized Ms. Bernstein.

Ms. Bernstein presented the Board with a brief review of the performance report as of March 31, 2004. She reported the Plan was still significantly over allocated in cash, the domestic equity allocation was above target, and the international equity and domestic fixed was still in the process of being funded. She stated the total portfolio underperformed with 2% actual return versus the policy return of 2.8%, which is a result of the over allocation to cash. She also stated Domestic Equities came in slightly below their benchmark at 2% as compared to 2.2% for the benchmark. She added this was due to the funding of the small cap managers not being in place, and small cap significantly outperformed large cap during the quarter. Ms. Bernstein stated in the latest year the Plan slightly underperformed the blended policy returns, but in the last three years it is close to the blended policy return with 4.0% return, compared to the benchmark at 4.5%. She added in the five-year period, DWP's return on domestic equities outperformed the policy benchmark and the domestic fixed came in very close to the benchmark. Ms. Bernstein then gave a brief overview of the economy for the quarter.

Mr. Moore noted, when looking at the debt markets, it was clear that TCW did very well in each time period and inquired if this was a result of the long duration and the decrease in the interest rates. Ms. Bernstein responded it was a combination of the decrease in the interest rates and the firm's security selection. She also added that this could go against the Plan the other way due to the concentration in the portfolio and the fact that TCW is not actively trading.

Mr. Moore referred to the charts on page XVII of the agenda packet, and noted it reflected DWP's portfolio has been able to stay above the 8% actuarial rate. He stated he assumes this is because of the fact PCA calculates the performances on a time adjusted basis. He commented the fund overall has gone into a slight deficit. Ms. Bernstein agreed the portfolio was currently below the 8% actuarial rate, but if one looks at the accumulative returns over the entire ten-year period, the portfolio would be above the benchmark.

President Romero thanked Ms. Bernstein for her presentation. Ms. Bernstein returned to the audience.

11. Report on TCW Sale of Ford Bonds - $25 million (Ford 8.9%, 01/15/3032, cusip 345370BV1.

President Romero inquired if any discussion was necessary regarding item 11. Mr. Moore inquired what staff's recommendation was with respect to how the Board should proceed. Ms. Bhatia responded staff was satisfied with the information presented. She explained a meeting was held and there was a discussion regarding three different areas. She stated the first area was the question of was there really an intention to sell the Ford bonds, what was the rush, and the fact that TCW did produce documentation to show there was discussion regarding the possible negative outlook of Ford bonds. Ms. Bhatia stated the second topic was what proceeds were really obtained, because in all of the correspondence she read there seemed to be a big question mark as to whether DWP had been credited with the appropriate proceeds. She expressed it does seem that the proceeds TCW obtained is what was actually reported to staff. She indicated the only other item staff does not agree with is the way the trade was structured, because based on previous surveys by Mr. Ignacio (DWP Finance Division), it was not industry practice to set up a trade at a previous price. However, in looking at all the documentation provided, it looks as if the spread was in line with the price that possibly would have been obtained. She reported staff is satisfied with the results and is not recommending any further action.

Mr. Vazquez expressed, from his standpoint, this was not a matter of intent, but he did not feel TCW's actions were appropriate in terms of the way securities markets generally work. He recommended the issue be reviewed by someone who is familiar with securities laws to give an opinion on whether or not what TCW did was reasonable and does not need to be pursued, or if it was a violation of securities laws and the Board needs to act accordingly. President Romero agreed with Mr. Vazquez and noted DWP has a contract through Klausner, an attorney, who is teamed up with a securities attorney in San Diego. He requested Attorney Wilkinson find out if the Board could utilize them as a resource to give the Board an opinion and proceed from there. Attorney Wilkinson inquired for clarification, if the Board wanted the City Attorney's Office to contact Bob Klausner to review this issue. President Romero responded in the affirmative.

Mr. Vazquez motioned that the TCW sale of Ford bonds be reviewed by a securities attorney to determine whether it was reasonable or a violation. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

12. Consideration of Contractual Agreement Extending Boston Company's Contract.

Ms. Rubalcava explained item 12 involved the one-year extension of the Boston Company's contract. Ms. Bhatia noted resolution 04-118 concerns the extension of DWP's existing contract with the Boston Company. She reported, during the course of the last year, there had been some changes in terms of the portfolio Boston had been managing and they currently look after the equity portion of the portfolio. She referred to resolution 04-118 on page 12.2 of the agenda packet and pointed out there were two paragraphs that were revised and the Board had already received those revisions. Ms. Bhatia indicated staff was specifically requesting Boston Company to recognize cash flows from securities sold, but that all cash pertaining to dividends, tender offers, etc. should continue to flow into the Plan's internally managed fund. She indicated this was not the instruction when the Boston Company was initially managing the Highmark portfolio. She stated the second item concerns whether the Boston Company is required to reinvest the proceeds from sales and the resolution states they are expected to fund purchases only from the funds received by securities sold. She stated staff is recommending the contract be extended for a period of one year.

President Romero commented, in the past, the Board discussed not reinvesting the securities sold, because that money would be going to another manager. Ms. Bhatia clarified this was the instruction first given to Boston Company for the Highmark portfolio, which does not exist now. She stated the additional amendment was written to clarify this; however if the Board decides Boston is not to reinvest, then it needs to be stated. President Romero inquired if staff took into consideration the possibility that securities are bought and sold and there is a cost associated with this and also the fact the Board may be transitioning out of that portfolio. He also inquired, given that, did staff feel comfortable with the Boston Company not keeping the money in cash. Ms Bhatia responded in the affirmative.

Mr. Moore moved approval of resolution 04-118. Seconded by Mr. Mirisola and carried unanimously after the following vote:

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

13. Consideration of Contract Agreement Extending Klausner & Kaufman's Contract.

President Romero introduced item 13, stating the Klausner & Kaufman's contract will expire on June 30th and staff is recommending a one-year extension. He inquired from staff if there was any particular reason why the extension is for one year as opposed to six months. Ms. Rubalcava responded the extension would be for one year with a cap of $35,000. She explained the extension of one year does not mean they have to be utilized, but does provide a resource for the Board to have for the next 12 months if something were to come up; for example the TCW issue. She added there were no requirements in the contract that state the Board must spend the money.

Attorney Wilkinson commented the contract would be under the same terms as before, which also includes a $35,000 cap. He stated if additional legal work were needed over and above this, it would require Board approval.

Mr. Moore moved approval of resolution 04-119. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

14. Consideration of Transition Issues and Action in Connection With the Core Fixed Income Mandate

President Romero introduced item 14 as a summary of transition management options for the Core Fixed Income manager.

David Malecek (BNY Brokerage) approached the podium.

President Romero recognized Mr. Malecek.

Mr. Malecek pointed out the continuity advantage of using the Bank of New York in that they have done two previous transitions for DWP, they are custodians, and they are the largest clearing agent, with 60% to 65% of the market. He stated the precedent has been set and they can work well within it. Mr. Malecek returned to the audience.

Sarah Bernstein approached the Board table.

President Romero recognized Ms. Bernstein.

Ms. Bernstein indicated PCA looked at various options for the Plan to transition to the new core fixed managers (Wells Capital and Aeltus/ING). She stated there was approximately $1.5 billion to be transferred to the two managers. She indicated the question is how to do this most efficiently from the existing portfolios (TCW and Standish I and II), whose contracts are up June 30th. She informed the Board that currently there was a time limit imposed if those contracts are not extended.

Ms. Bernstein stated the first option is for the existing managers (TCW and Standish) or a transition manager to sell the existing portfolios and give the new managers cash to buy the necessary securities. She added this was the most expensive option. Ms. Bernstein stated the second option is to have the new managers (Wells and ING) directly receive in-kind portfolios and do the full transition themselves. She indicated both Wells and ING have stated they reviewed the existing portfolios and they anticipate about a 90% turnover in what they would sell in order to purchase what they think they would need to position the portfolios according to their strategies. She explained the advantage of this strategy is that one does not have to have any kind of additional contract in place with any transition manager. Ms. Bernstein stated the third option is to have a transition manager do both sides of the transition by taking the TCW and Standish portfolios, sell those, and then buy the model portfolio that ING and Wells are looking for. She indicated PCA looked at three transition managers and got bids from State Street, Frank Russell, and Bank of New York and compared those to the bids from ING and Wells Capital. She stated the bids are quite wide ranging and listed them as follows: Wells Capital came in with a total cost for the transition of between 20 and 40 basis points; ING gave a total cost of 5 to 25 basis points; Bank of New York at 11.8 basis points (not including opportunity costs in the market); and State Street at 23 basis points. She indicated PCA's conclusion from this, given the constraints on Water & Power and trying to get funded as quickly as possible, is that it would be a reasonable solution to give the in-kind portfolios directly to the new managers.

President Romero expressed his concern that during the previous transitions the Board executed, there was a very close involvement of staff and there was a 24-hour operation with the previous Plan manager. He added there was an internal control of risks, at that time, which made him comfortable. He stated giving two managers $1.5 billion without much risk control on their end concerns him because there is no one to monitor, and therefore the Board is losing control in that aspect. President Romero also inquired if ING and Wells have soft dollar arrangements and what kind of impact would this have. He inquired, if the Board uses a custodian bank, would this reduce the fee as opposed to doing the transition with Wells or ING. He further inquired if there were no time constraint issues, what would PCA's recommendation be. Ms. Bernstein responded there were advantages to giving the direct in-kind portfolios to the managers because they are quite liquid. She stated one positive of that, outside of time constraints, is that the new managers (ING and Wells) know all the dealers working the corporate securities. President Romero inquired if the new managers had the ability to efficiently do the transition. Ms. Bernstein responded ING was a very large player and one could have high confidence in them. She added ING could get the transition done in five to seven days if they took the existing portfolio and sold those securities. She stated Wells was a little smaller player and their timeframe is longer, which is part of the reason they gave a higher estimated cost, and the more time you take to do the transition, the more risk there is. Ms. Bernstein explained the positives on the transition manager, particularly Bank of New York, is they have the ability to cross-sell some of the securities internally with their other accounts; subsequently the Board may in fact get slightly better pricing overall. She stated, in this particular case, there is not a clear advantage to using a transition manager as there is in some of the equity markets.

Ms. Rubalcava commented that the TCW and Standish's contracts will end June 30th and the firms have chosen not to renew with DWP and do not want an extension. She stated Mr. Rue (PCA) indicated to her the night before that Standish may consider a 30-day extension due to the Board's circumstances with the Core Fixed, but she has not had a conversation with the company to confirm this. More Board discussion ensued.

Ms. Calvache commented that Mr. Vellon followed the transitions very closely staying up until one, two, and three o'clock in the morning following the market and inquired who on staff will now do this. Ms. Bhatia responded staff will do whatever is necessary and clarified Mr. Vellon followed the transition through his staff and it was not done single handedly. Ms. Calvache clarified the emails received by the Board were sent directly by Mr. Vellon. Ms. Bhatia responded it is possible to place a time delay on emails being sent. Ms. Calvache stated President Romero should be able to call staff and inquire on the status of the transitions. Ms. Bhatia responded that staff also has a fiduciary duty to the Plan and will do whatever is necessary.

Mr. Moore inquired, with respect to timeframe, should the Board go with Bank of New York and what is the comfort level that it can be accomplished before June 30th. Mr. Vazquez commented the Board has done two transitions with the Bank of New York and he did not know how substantially different a contract would be for this transition from the one that already exists. He added all the legal points should be covered. Mr. Vazquez inquired of Attorney Wilkinson if there would be a long time delay in executing a transition contract with the Bank of New York for that particular type of transition. Ms. Bhatia clarified there was not a standing contract. Mr. Vazquez stated the Board does have contracts they have done with the Bank of New York wherein the legal points were covered in terms of the City's and the firm's requirements. Attorney Wilkinson informed the Board that the City Attorney's office has a standard contract they have been using for a long time, but sometimes delays arise when the other party wants to do substantial changes. Ms. Bhatia commented the transition agreement staff did with the Bank of New York was for the Passive and Domestic Equity, but it was not like the regular standard contracts that are done with the investment managers. She stated it was a separate agreement addressing the main issue of transitions and would take time to be reviewed by the legal department and may take a lot of going back and forth before finalization. President Romero indicated Bank of New York has agreed to all of the requirements and the Board is just looking at the language.

Mr. Tom Harrison of Wells Capital Management approached the podium.

President Romero recognized Mr. Harrison.

Mr. Harrison commented that Wells Capital wanted to communicate to the Board that they are used to many situations where they don't use a transition manager and wanted to provide some comfort to the Board that whatever the Board decides, Wells Capital would be positioned to do its best to minimize the opportunity cost. He added, with regards to soft dollars, Wells does not use soft dollars on the core fixed side. Mr. Harrison returned to the audience.

Mr. David Malecek (BNY) approached the podium.

President Romero recognized Mr. Malecek.

Mr. Malecek indicated BNY has done quite a few fixed income contracts, which include 114 in 2002 and 361 in 2003.

Commissioner McCallum expressed that he was not clear on what the opposition was to using the new managers to do the transitions. Ms. Bernstein responded, from PCA's point of view, they do not have any opposition to it. She stated, in this particular transition, given the liquidity of the securities and the capabilities of the incoming managers, the Plan would be finely served just giving the in-kind portfolios to the managers. Commissioner McCallum noted the Board has received comfort from the staff regarding their ability to manage and monitor the transition; therefore he needed to hear more of a reason to shift to the option of using a separate transition manager.

Mr. Moore noted that Ms. Bernstein stated the opportunity cost is not included in Bank of New York's bid, and inquired if this was the cost during the period the monies are not invested. Ms. Bernstein responded during the transition there is an opportunity cost if a given security or the whole market drops or increases. Mr. Moore noted Ms. Bernstein, in her initial comments, discussed the different motivations between the portfolio managers and the transition managers and requested she go over this again for further clarification. Ms. Bernstein explained typically the investment managers present total cost estimates to make sure they are more on the conservative side. Ms. Bernstein stated, in contrast, transition managers are bidding and their self-interest is to try and bid accurately and contain total costs. Mr. Moore inquired if both would be able to perform about the same way. Ms. Bernstein responded different managers have different strengths. She explained the large transition managers trade all day, therefore they would have some elements of capacity that one might not get from the direct managers. She added Bank of New York has the crossing ability, which is an additional benefit to narrowing the spreads. Ms. Bernstein indicated the positive on the investment manager's side is that they are very familiar with their own securities and know who deals with every security they want to buy. She also added, with the transition managers, there are explicit costs of a one basis point commission.

Mr. Moore commented if the Board went with the individual portfolio managers and evaluated their performance during the transition, it might not be based on the same analytical approach and would not be comparable. He inquired if the Board could request BNY to do the monitoring since they would be in the best position. Ms. Bernstein responded the Board would have to ask BNY, but in general, if the Board gave the in-kind portfolios to the new managers they would not do the same kind of reporting.

President Romero inquired if there was a range for opportunity costs. Ms. Bernstein responded the Frank Russell and State Street estimates were 3 to 5 basis points, but her suggestion to the Board would be to look at the overall basis point bids.

Mr. Vazquez indicated he wanted to address Commissioner McCallum's question. He expressed he felt the Board should go with the transition manager, and if not, have some type of transition agreement with Wells and ING that would spell out how they would go through this. Mr. Vazquez stated BNY does transitioning as a core business and it will be done pursuant to an agreement. He pointed out that one basis point of commission on $1.5 billion is just $150,000 and in terms of 20 basis points it would amount to $3 million. He added BNY would get it done in the shortest timeframe; therefore the monies will be invested in the portfolio in the shortest amount of time. He then recommended the use of a transition manager because it would be cleaner, there would be more synergy, and there is already an agreement in place. Commissioner McCallum expressed he still did not see the point of using a transition manager and that it was his understanding that using a transition manager would extend the time. Mr. Vazquez clarified he was speaking of the time it would take to make the transition. He stated in terms of Wells it would take up to 30 days to complete a transition and BNY could complete it within 4 to 6 days. He explained the potential large amount on time depends on how soon the Board could get a contract with BNY versus turning the securities over to Wells and ING.

Mr. Vazquez inquired if the contracts the Department is signing with Wells and ING address transition. Ms. Bhatia responded in the affirmative, but the contracts had not been sent out yet because staff is waiting for the Board's decision to determine what provisions should be added. She stated, as far as minimizing transition costs, staff has already sent the holding for TCW and Standish to both Wells and ING to give them an idea of which items would be transitioned in-kind.

President Romero inquired whether the Board chooses Wells, ING, or BNY would a transition agreement still need to be developed. Ms. Bhatia responded that staff was proposing that since there is already a contract with Wells and ING prepared, provisions be inserted concerning the transition in that same contract. Mr. Moore inquired if the companies had seen those provisions yet, because there is still a potential for back and forth negations with all three players. He added if there is a potential for difficulty between now and June 30th in pulling this off then he would agree with Mr. Vazquez that the best way to go would be with a transition manager. Ms. Bernstein mentioned another advantage of going with a transition manager is that they can be given both portfolios to allocate and determine which new manager would get which security.

Mr. Moore inquired of BNY, if based upon the contract negotiations they have had in the past and recognizing the issues that will have to be dealt with in the way of language, did they see the likelihood of any problems in handling the transition very quickly. Mr. Malecek responded he did not foresee any problems because BNY had previously worked with the Retirement staff on two contracts. More discussion ensued among the Board members

Mr. Vazquez moved the selection of BNY as transition manager in transitioning the securities from TCW and the Standish portfolios to the new core fixed income managers. Seconded by Ms. Calvache and carried after the following vote:

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

Abstained: Mirisola

Attorney Wilkinson clarified that Mr. Mirisola's abstention is counted as a "yes" vote.

Ms. Rubalcava informed the Board that staff would come back with a new resolution at the June 2nd Special Board meeting. President Romero inquired how long it would be before dialogue could be developed between the Retirement staff and BNY to get started on the standard language. Ms. Rubalcava responded BNY could call as early as that afternoon to get started.

15. Consideration of a Resolution Authorizing Wells Capital Management to Manage the Investments in the Disability and Death Benefit Funds Under a Commingled Fund Strategy.

President Romero introduced item 15 and inquired if the Board had previously discussed this item. He expressed he had a concern with giving the fund to Wells and inquired if ING was given an opportunity. Ms. Bhatia explained it was discussed with ING and Wells via telephone; however in the interest of time staff was developing contracts for both firms. She indicated Wells came back to staff with a response on how they would manage the two smaller funds (disability/death benefit). She stated because of the size of the funds, Wells proposed the guidelines on page 15.6 of the agenda packet. She added when Wells was selected it was an active mandate and this resolution refers to a commingled mandate as part of what they would manage for the Department and this is why it is being brought back to the Board. She further indicated staff has not received a response from ING. President Romero expressed he would like to be able to compare ING and Wells and see what both firms have to bring to the table in terms of quality of investments. He commented that he wants to show a good faith effort that everyone is given the same opportunity. Ms. Rubalcava responded that both Wells and ING were given the same opportunity and ING has not responded. Ms. Bhatia further commented, that staff did not really follow up with ING, but did speak to them briefly and was unable to get comparisons. She stated the way staff was approaching it was to divide up the portfolio (1.5 billion), equally smaller. She clarified that they were proposing not to manage the two funds in the same manner as the retirement fund but this was a Board decision to make.

President Romero expressed he would like to see a comparison between ING and Wells to see what each has to bring to the table with regards to the quality of investments they will be investing the two funds in. Ms. Rubalcava commented, instead of taking the death and disability and splitting it in two and giving both Wells and ING half, the Board could opt to give the entire fund to Wells because it is such a small amount. She added Well's response was to put the fund in a commingled account, which is why staff brought the issue back to the Board. Mr. Moore inquired if the total was split and if staff added the death benefit and disability to this. Ms. Bhatia responded the whole thing would be divided equally. Mr. Moore commented, that if this is the case, both firms would be getting the same amount. He pointed out that one firm would not be getting an advantage over the other. Mr. Moore expressed he had no discomfort in funding with Wells because the sooner they are invested properly the better, particularly if the Board is not advantaging one of the players versus the other.

President Romero reiterated he wanted some clarity as to the type of investments each firm would be selecting as far as high yield and high risk.   Ms. Bernstein agreed it was in the Department's best interest to compare both ING and Wells' bids. She stated because of the small size of the funds she was sure both firms would come up with a commingled vehicle.

Mr. Vasquez recommended the Board not split the death and disability fund 50/50 to Wells and ING. He stated it should be part of the $750 million given to either one company or the other. Ms. Bhatia stated staff would request a proposal from ING in writing and it would be submitted to the Board at the June 16 Board meeting.

President Romero inquired if there was a Charter requirement that disability or death benefits should be managed separately from the other fixed incomes. Ms. Bhatia responded in the affirmative, stating this was the reason the death and disability funds have to be kept separate from the retirement fund and this was indicated in Resolution 04-121. More discussion ensued regarding the managing of the disability and death funds.

Mr. Vasquez stated he would like to see the whole matter put to rest because one manager is not being given more funds over the other. He added the fund was being managed in the exact same style and manner, as the fund that were allocated from the retirement fund.   Mr. Vasquez suggested the Board accept staff's recommendation and allocate the $42 million as part of the $750 million to be managed by Wells in their commingled account as opposed to a separate account.   Mr. Moore expressed he was comfortable with this. Ms. Bernstein commented it made since to get a proposal from ING for their commingled fund as President Romero suggested.

Ms. Rubalcava informed the Board this issue could be brought to the table at the June 16 Regular Board Meeting with a proposal by ING for comparison. Ms. Calvache suggested staff have the materials ready for the June 2nd Special Board meeting. Ms Bhatia responded staff would make every attempt possible to have something for the Board on the 2nd of June.

Mr. Mirisola motioned the approval of Resolution 04-121, to be reevaluated after the Board's review of an ING offer at the Special Board meeting held June 2nd. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

Attorney Wilkinson clarified, for the record, that the resolution is an offer to Wells, subject to ING's response.

16. Report on Investment Manager Status Including Contract, Funding, and Insurance.

Ms. Rubalcava introduced item 16 stating staff developed a chart to advise the Board of the status of the investment managers. Mr. Vazquez inquired about the Core Fixed

Income having a "yes" under the Contract Completed column, but "in process" under Contract Status column. Ms. Rubalcava explained that the actual language and negotiations of the contract were complete, but staff still needed signatures by the investment managers and the Board.

President Romero noted, with regards to Boston and INVESCO, the chart says fully approved but not funded and inquired when will they be funded. Ms. Bhatia clarified "fully approved" was under the "Insurance Met" column, but a "no" under the "Contract Completed" column. Mr. Vazquez inquired what else did INVESCO need to be completed. Ms. Bhatia responded INVESCO was ready to fund but a sweep option needed to be selected for any remaining cash and staff is still waiting for BNY to provide them with the options.

Ms. Calvache noted that with regards to Earnest Partners, it states, "As of May 10, they are still awaiting a draft contract. They will not submit proof of insurance until then." She then inquired who has the draft contract. Ms. Rubalcava responded the Retirement Office staff has the draft contract and most companies do not turn in their insurance until a contract has been signed. She stated there were some investment managers (e.g. Wells and Aeltus) that have worked with the Board who start turning in their insurance as soon as contract negotiations begin in order to be proactive. She stated Earnest Partners was an item that came to the Board with a resolution to accept insurance under $15 million. She added fees were not negotiated with Earnest Partners and this came to light when having discussions with them. Ms. Rubalcava informed the Board she was focusing on completing the contracts for Wells and Aeltus and giving Earnest Partners a draft of the contract and start negotiating fees. President Romero inquired why fees had not been negotiated yet. Ms. Rubalcava responded it was something that was discovered when staff met to get an update on the status of the investment managers. Ms. Bhatia stated there was a daft prepared and it was being reviewed, however fees have not been negotiated. President Romero inquired if staff had a weekly meeting to discuss updates and to keep track of the contracts. Ms. Rubalcava responded the weekly meeting is how staff discovered fees had not been negotiated for Earnest Partners.

Mr. Moore inquired about the status of Northern Trust. Ms. Rubalcava responded she was awaiting a letter from Northern Trust stating they cannot meet the insurance requirements and indicated the firm had already stated that verbally. She added that Northern Trust also will not sign the waiver of subrogation.

President Romero inquired if Merrill Lynch had resolved their insurance issues. Ms. Bhatia responded that the professional liability was still outstanding.

Mr. Joseph Silver of Merrill Lynch approached the podium.

President Romero recognized Mr. Silver.

Mr. Silver informed the Board that Merrill Lynch had one document outstanding for the fidelity bond because the original was sent to Mr. Neaman (risk management) but he requested Merrill tweak some of the language in it. He stated the professional liability coverage was in place and he was working on finalizing another offer to the Board. He added Mr. Neaman stated a letter of credit was acceptable, but the Board can decide whether they want a letter of credit for the additional $25 million or continue to be covered under Merrill's guarantee.

Mr. Moore noted that all of INTECH's insurance coverage was outstanding and inquired why it was taking so long. Ms. Rubalcava requested Mr. Neaman be present for the next meeting to answer these questions. President Romero suggested including Mr. Neaman in the weekly staff update meetings. Mr. Moore expressed his displeasure in the way Delaware and Northern Trust played games with the Board and proposed the Board communicate their disapproval.

President Romero inquired what the "non-risk management related issue" under the Insurance Met column for Delaware referred to and what was their issue. Ms. Bhatia clarified the "non" was a mistake and it was risk related. President Romero inquired what the specifics were. Ms. Bhatia responded that Delaware was only able to provide $40 million of coverage leaving a $10 million gap. She stated Delaware attempted to get the additional $10 million from another carrier, but it did not work out. Ms. Rubalcava stated, in addition to this, staff wrote a resolution stating if for any reason Delaware could not fill the $10 million gap, they would pick up the cost of the transition fees and they have refused to do this. President Romero inquired if there was some written correspondence to reflect this. Ms. Bhatia indicated Delaware had sent an e-mail.

Mr. Moore requested a better explanation as to INVESCO's custodial issues that needed to be worked out with BNY. Ms. Bhatia explained that the money left over from investing in stocks needs to be invested in some type of vehicle and BNY requests that the Department sign a global custody agreement with them, which has already been done. However, one of the items to be authorized is which investment vehicle will be used and staff was given five different options, but is still waiting for information regarding the performance of each vehicle. Ms. Bhatia emphasized the importance of a cash vehicle being selected prior to funding. Mr. Vazquez inquired, if a vehicle is chosen just to get funded, could the vehicle be changed at a later date. Ms. Bhatia responded this could be done, but one would have to go through the entire process again. She informed the Board that it should only be a day or so before the transaction is completed. President Romero requested Mr. Malecek make sure staff receives this information. Ms. Bernstein commented that PCA has gone through various sweep vehicles, which she discussed with Mr. Abarro (DWP Retirement Investment Officer), and there are two preferable options. She stated one option is the BNY collective trust and the other the outsource to Goldman Sachs. She added PCA wanted to double check one thing regarding this and they should have an answer by that afternoon.

17. PCA Executive Summary.

President Romero introduced item 17, stating Mr. Moore requested PCA provide an Executive Summary regarding the SEC report. He inquired if Mr. Moore was comfortable with the summary PCA submitted. Mr. Moore responded he was comfortable with it and if he had time he would like to review the detailed report filed by the SEC in the Retirement Plan office. Ms. Rubalcava indicated staff brought the report to the Board meeting.

18. Update on Missing Beneficiaries.

Ms. Rubalcava reported there were 36 outstanding missing beneficiaries and staff was in the process of obtaining bids from Lexis-Nexis. President Romero inquired if staff had been working with a private investigator. Ms. Rubalcava clarified staff was working with International Claims Specialists who was performing searches and charging $50 to $75 per search. She added the company did not find a great number of people and their method of searching could be done by the staff in the Retirement Office. Ms. Rubalcava stated the Death/Disability supervisor recommended discontinuing the search and doing it in-house with the assistance of Lexis-Nexis. President Romero stated some of the beneficiaries had been missing for over five years and staff already attempted to find them in-house, which is why an outside agency was hired. Mr. Mirisola commented the Retirement Board hired International Claim Specialists to perform the searches and he did not know why staff would cancel it. President Romero stated staff already has enough work and the Board took an action to have International Claim Specialists do the searches, which was the Board's due diligence in finding the missing beneficiaries. Mr. Moore commented that the Board selected two firms to perform the searches and he was not clear on who was the more successful firm. Ms. Rubalcava responded this was new information to her and she would discuss this with the Death/Disability Section because she was only familiar with one of the firms, and there has been a high turnover in terms of supervisors in that Section.

Mr. Moore requested a better feel for what sort of performance was experienced from the two firms to see if they were unsuccessful. President Romero commented staff had already received a report from International Claim Services and requested the report for the Board's review. Ms. Calvache inquired if International Claim Specialists has already been terminated. Ms. Rubalcava stated she would check to make sure because she did not know.

19. Update on Merrill Lynch Portfolio.

President Romero introduced item 19 and inquired if the Board needed any discussion. Mr. Mirisola indicated he had requested this item to review the activity in the portfolio and that he was satisfied with the information that was provided in the agenda packet.

20. Health/Dental Actuarial Data.

Mr. Harrington noted that Mr. Vazquez requested staff look into the health/dental actuarial data at the last Board meeting. He stated staff attended a meeting yesterday which included ITS and Health Plans to discuss this issue. He explained if the Retirement Office were given a list of all the retirees and eligible spouses on the retirement payroll, staff could verify this, but they have no knowledge of who has a health subsidy, who is eligible for a subsidy, or how much it should be. He added this information comes from the Health Office.

Mr. Moore requested Mr. Vazquez provide the board with more background on the issue. Mr. Vazquez explained an actuary is used to determine what the Department's liability is for post-retirement healthcare and the budget for this year was based on the actuarial report that was produced last year. He stated it came to one of his staff member's attention that in the actuarial report the number shown for those eligible for post-retirement healthcare cost was substantially less than the numbers used for the retirement calculations. He added the number was wrong by several thousand employees so they had the actuarial report rerun and it resulted in an additional $30 million in cost for this year that was not budgeted. Mr. Vazquez stated he had suggested in the last meeting that someone should be the caretaker of information going into the actuarial reports. He indicated he did not know if the Segal Company works directly with the Health Plans, through the Retirement Office, or where they are getting their data. Ms. Rubalcava responded it was separate from the Retirement Office and in yesterday's meeting Retirement offered to confirm the numbers Health Plans and ITS receives and who is eligible. Mr. Vazquez suggested there be one source providing the accurate information

21. 2004 Health Plan Subsidy.

Mr. Mirisola expressed his concern that the Board was promised on three different occasions that the Health Plan subsidy information was correct and that was not the case. He stated the problem has not been fixed because the old system is still in use. However, there seems to be a glitch in the system that cannot be fixed until the problem occurs.

Ms. Bhatia informed the Board that this was an issue concerning the Health Plans Office. She explained that the health subsidy is a deduction in the pension check, and as a result, the checks end up being incorrect. Mr. Moore commented, given the problems the retirees have already faced this year, the problem should be solved before it occurs.

Mr. Mirisola inquired which month did the problem occur. Mr. Harrington responded June 30th. Mr. Mirisola suggested that before the subsidy is taken out, perhaps staff could review the information to make sure it is accurate. Ms. Rubalcava clarified that ITS produces the report and then Health Plans has an opportunity to review it because the Retirement Office does not have the medical information. Mr. Mirisola reiterated the problem only has to do with the money that is held out of the retiree's check. Ms. Bhatia clarified that the Retirement Office does the retiree's payroll but has nothing to do with the subsidy. Ms. Rubalcava emphasized that staff does not have the medical information. She stated Health Plans should be given the report from ITS for review. Ms. Calvache inquired when this was going to happen. Ms. Rubalcava responded that was a question for ITS. Ms. Calvache recommended inviting ITS and Health Plans to the next Regular Board meeting to discuss the issue further.

22. Consideration of Changes to the Plan's Statement of Investment Goals and Guidelines to Update High Yield and Fixed Income and Amend Core Fixed Income.

President Romero introduced item 22 as the consideration of changes to the Plan Statement of Investment Objectives, Goals, and Guidelines for the high yield, fixed income, and core fixed income mandates. Ms. Bernstein commented that the guidelines included in the Board package were additional changes that have been worked out and refinements to the existing policies.

Mr. Moore referred to page 22.6 in the second paragraph of item 1, and stated the paragraph sounds like it precludes the manager from actually selling the security until they have notified the Plan, and inquired if this was the intention. Ms. Bernstein responded the guidelines state one cannot hold a security below single C. She explained that paragraph is in case a security is considered to be in good shape and for some reason gets hammered and the ratings drop. She agreed with Mr. Moore that a security should not be held and the language needed clarification.

23. Retirement Plan Manager's Comments.

a) Status on Custodian Bank RFI and Financial Consultants RFP (SB & AD)

b) DWP Plan Newsletter for Retirees (May 1, 2004 Edition).

c) General Items:

Ms. Rubalcava expressed she had no comments.

Commissioner McCallum commented, as a member of the Audit Committee, he requested Mr. Vazquez to obtain information on the purposes and functions of our audit from Price Waterhouse. He stated a meeting would be scheduled to review the information.

24. Future agenda items.

President Romero inquired when the annual statement was scheduled to go out to the members. Ms. Rubalcava responded the statements would be issued in June and had already been posted on the website

The meeting was adjourned at 12:25 p.m.

JAVIER ROMERO
President

ADRIANA RUBALCAVA
Secretary

IRENE COLON
Recording Secretary