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

MEETING – August 18, 2004

Present:

Javier Romero	President
Lilly Calvache	Vice President
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member
Gerard McCallum II	Commissioner
Enrique Martinez	Acting General Manager

Absent:

Vacant	Board Member
Robert Rozanski	Acting Retirement Plan Manager

Others Present:

Sangeeta Bhatia	Assistant Retirement Plan manager
Irene Colon	Recording Secretary
Sarah Bernstein	PCA (Pension Consulting Alliance)
Mike Wilkinson	Deputy City Attorney

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

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero inquired if there were any public comments. Ms. Colon indicated there were none.

President Romero welcomed Mr. Enrique Martinez to the Retirement Board.

1. **Approval of Board Minutes:**
   a) **May 19, 2004 – With Noted Additions (Regular Board Meeting)**
   b) **May 26, 2004 (Benefits Committee Meeting)**
   c) **June 2, 2004 (Special Board Meeting)**
   d) **June 15, 2004 (Regular Board Meeting)**

2. **Termination from Monthly Rolls as of July 2004:**
   Retirement Resolution for July 2004:
   Termination from the August 2004 Family Death Benefit Roll: Samuel Bailey and Jon-Michael Cole – Attained 18 years of age
   Termination of John Depompa from the August 2004 Permanent Total Disability Roll – Retired 8-01-04

Ms. Calvache moved adoption of the above items 1 and 2 on the consent agenda. Seconded by Mr. Martinez and carried unanimously after the following vote:

Ayes: Romero, Vazquez, Moore, Martinez, and Calvache
Nays: None

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

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

Ayes: Romero, Vazquez, Moore, Martinez and Calvache
Nays: None

10. **Appointment of Chairs for Benefits and Audit Committees**

President Romero indicated he would like to keep the committees as they currently stand with Commissioner McCallum as Chair of the Audit Committee and Ms. Calvache as Chair of the Benefits Committee.

11. **Investment Manager Report**

Ms. Bhatia explained item 11 was an investment manager status report requested by the Board for each Board meeting. She explained the report provides information on which contracts were completed, the status of the insurances, and which funding is complete. She informed the Board that behind the schedule there was a narrative for the same information, but in more detail.

President Romero inquired which contracts were complete and have not been funded. Ms. Bhatia responded T. Rowe Price's contract had been signed and staff is just waiting for a couple of items to be finalized with regards to the transition agreement. She added Fidelity has been signed also and is ready to be funded. President Romero inquired about the high yield contracts for Loomis Sayles and Wells Capital. Ms. Bhatia responded the high yield managers were selected on July 7th so the contract process had just started. Mr. Vazquez noted that Wells had met all of the insurance requirements and inquired what else was needed in order to get the firm funded in the high yield mandate. Ms. Bhatia responded staff had started working on the contract; however, there are some decisions the Board needs to make in terms of the funding and transition. She reminded the Board that at the July 21, 2004, Retirement Board meeting there was a memo provided by Mr. Rue (PCA) concerning pending transitions of which high yield was one. Ms. Bhatia stated the Board requested PCA to come back with a report on the pre-trade analysis for upcoming transitions, which is a later agenda item.

Mr. Moore noted, according to the report, Bank of New York and Boston Company were shown as “compliance to all insurance requirements outstanding.” He commented this puzzled him because he would have thought the Department already had solid insurance in place with these firms. Ms. Bhatia explained, as far as the contract language, there has been a lot of back and forth regarding the provisions that both the managers and the Department require; therefore, the insurance is still outstanding. Mr. Vazquez stated, according to the Boston Company’s last report a month ago, the contracts were almost complete. He added it is surprising the contract is still outstanding. Mr. Moore commented he did not think there would be many changes in Boston’s insurance from what is already in place. Ms. Bhatia clarified the insurance requirements for the previous contracts were totally different. She added, as far as T. Rowe Price is concerned, staff is waiting for the manager to submit the DWP endorsement forms. Mr. Neaman (DWP risk management) commented he was under the impression T. Rowe Price was approved, but he would call and make sure. Ms. Bhatia clarified the data in the report was put together for the Board package last week, so the forms may have been submitted by now. Mr. Vazquez inquired if there was a representative from the Boston Company present to update the Board on where the firm stands.

Robert Harkins of the Boston Company approached the podium.

President Romero recognized Mr. Harkins.

Mr. Harkins indicated the Boston Company redid their portfolio contract back in July and their certificates evidencing the insurance that was once acceptable for that contract is now unacceptable. He stated the firm is currently working with Mr. Neaman to see if they can come to some understanding of the change. Mr. Harkins returned to the audience.

Ms. Calvache inquired if Earnest Partners had met the insurance requirements yet. Ms. Bhatia responded their insurance was still pending. She indicated she spoke with Mr. Jay Wilson of Earnest Partners last week and the firm is hesitant in buying the insurance until the contract is actually signed. Ms. Bhatia stated the firm also had some questions regarding the contract provisions, which have been resolved. She stated staff would be sending Earnest Partners the contract and, as soon as all parties have signed, the firm will be willing to make the payment for their insurance.

Mr. Vazquez noted on page 11.6 of the agenda packet it states Earnest Partner’s fees had not been negotiated. Ms. Bhatia responded the fees were negotiated just after the completion of the Board package.

12. Payee Change for Option "B" Beneficiary – Charles Zinger

Mr. Charles Zinger approached the podium.

President Romero recognized Mr. Zinger.

Mr. Zinger stated he reviewed the City Attorney's opinion regarding the amending of the Plan, and the City Attorney basically restated what the Plan already says. He expressed he already recognizes what the Plan says, which is why he came before the Board to have the Plan changed. Mr. Zinger explained that he was proposing a Plan change benefiting the employees and retirees without costing the Department. He asked that when the Board sends the request to the City Attorney, not to ask "why should it not be done" but "how can it be done." He added he wanted the Board to ask how the Plan can be changed to accommodate all of the employees. Mr. Zinger stated it has always been his impression that the Board members are here for the benefit of the employees and are looking to do what is best for them. He reiterated the change he was proposing would benefit the present and past employees at no cost to the Department. He explained that there is a precedent for a change and the Courts have ordered the Plan be amended in the past with regards to Option C. Mr. Zinger stated he was only requesting the Plan be amended again to allow any employee or retiree, up to the time of his death, the opportunity to change his designated beneficiary, but use the life expectancy of the person the actuarial was based upon. He further stated if that person dies, at any time, the monthly allowance stops going to the third person and, in the event the third person dies, it reverts back to the original person named.

President Romero informed Mr. Zinger that the Retirement Board does not have the ability to change anything in the Plan. He then recommended Mr. Zinger pursue his request through the labor unions to initiate a conversation with management so that the change can be made. He explained once those changes are made, the Retirement Board will agree to them.

Mr. Moore expressed he was not sure that the Board is precluded outside of the meet and confer process of considering Plan changes. He indicated he agreed with Mr. Zinger in that the staff report does not address the issue he spoke to when he previously came before the Board. Mr. Moore suggested that staff give the Board a feel for the number of other instances wherein a retiree is locked into a particular approach and would like to change the option but is precluded from doing so by the way the Plan is worded. He added if such a Plan change were made, it would potentially have implications to the Health Plans because the payment to widows is predicated upon whether or not they are receiving funds from the Retirement Plan.

President Romero inquired what Counsel's opinion was regarding the proposed Plan change. Attorney Wilkinson stated he agreed that anything going further would have to be declared as not a "meet and confer" item. He also agreed that any change to the Retirement Plan was a decision for the Board of Commissioners of Water and Power. However, he did not agree that the proposed change would be at no cost to the Plan, due to the additional administrative procedures to carry out the request.

Mr. Zinger stated, as to the administrative costs, if the Plan is changed, all administrative costs are borne by the person requesting the change. Mr. Zinger left the meeting.

13. Discussion and Possible Action on Readership Numbers for the Hits on the Los Angeles Department of Water and Power Retirement Website

Ms. Bhatia stated at the last board meeting, staff had been requested to report on the readership for the minutes posted on the Retirement website and the attached report provides that information. She reported there were over 100 hits over two servers during the period of July 16, 2004 through August 8, 2004. President Romero inquired if the Retirement website was being advertised in the retiree and active employees' newsletter. Ms. Bhatia responded in the affirmative.

Mr. Moore noted, when reviewing the report on the minute readership included in the Board packet, there are 32 repeat hits from the same address which means someone is obviously hitting different pages during the course of a several hour period. He stated, if one breaks it down in terms of the number of people accessing information during that three-week period, it would be approximately 43 people, which on an annual basis would only be 4% of DWP employees and retirees. Mr. Moore suggested staff find out what the readership of the minutes is for some of the other retirement plans. He commented if no one is reading the minutes then perhaps they should be more concise.

14. Review and Approval to Proceed with the RFP for the Investment Consultant for the WPERP – Additional Language

Ms. Bhatia introduced item 14, stating it concerned the review and approval of the Request for Proposal (RFP) for the investment consultant. She stated at the last meeting, staff presented the RFP, and based on Board feedback made some changes. Ms. Bhatia pointed out changes made on page 14.4 of the agenda packet concerning the investment consultant's priorities in terms of alternative and real estate investments. She stated there was also a change in the calendar on page 14.5. and a change updating the market values reflected on page 14.8. Ms. Bhatia indicated staff was instructed to bring the item back for Board discussion and to change the RFP before finalization and posting for advertisement.

Mr. Moore suggested a change in language of the first sentence in the bolded paragraph to read, "The Board recently completed a comprehensive reallocation of its investment portfolio, but it has not yet established an investment strategy or chosen investment managers for real estate (4% of the portfolio) or alternative investment (5% of the portfolio)." He also suggested changing the second sentence to read "The Consultant will be directed to assist the Plan in formulating the strategy . . . ." Mr. Moore suggested an introductory sentence to the next paragraph emphasizing the Board wants to see a demonstration on the firm's depth and experience in general investment consulting, in addition to the focus on the real estate and alternative investments.

Mr. Moore expressed, with respect to the areas the consultant would be involved in, there were a number of additional items the Board should consider and discuss. He then listed items he would be particularly interested in as follows: assisting the Board in developing appropriate reports to oversee performance of investment managers and other service providers, to oversee the portfolio and monitor Retirement Plan administration, assist the Board in structuring and selecting a service to administer the Plan's proxy program, assist the board and staff in identifying and prioritizing important information systems improvements and other critical resourcing needs, assist the Board in streamlining and updating the Retirement Plan documents and materials provided to Board members and retirees, recognition of the major changes that have been implemented in the investment structure of the Plan, assist the Board in identifying improvements to its governance process, particularly the need to establish an appropriate committee structure and outline the rules and responsibilities of recommended committees, and lastly keep the Board abreast of important developments in public pension plan administration and assist the Board in identifying and establishing best practices models for the Plan. President Romero inquired if Mr. Moore was suggesting adding those items to the list. Mr. Moore responded in the affirmative.

Mr. Moore referred to page 14.5 of the agenda packet regarding the adherence to City of Los Angeles contractor requirements. He then asked Atty. Wilkinson, if by enforcing the requirements in advance, would the Board be precluding firms from bidding because they may not have had to ever comply with the listed ordinances. Mr. Moore suggested a change in language requiring the firms agree to adhere to applying for the required licenses, etc. Atty. Wilkinson responded he had no problem with Mr. Moore's suggestion, but he did not know if this was something the Retirement staff requires bidders provide in advance. Ms. Bhatia commented that usually the firms applying indicate they have the ability to comply with the requirements and provide them later. She added it was standard language put in all of the RFPs, including the RFP's for investment managers. Ms. Calvache suggested, for clarification, the language be changed and staff should check with purchasing to make sure this was acceptable.

President Romero inquired if the item needed to come back before the Board. Mr. Moore stated the item did need to come back with the noted changes.

Mr. Moore referred to page 14.10 of the agenda packet, number 18, which asks for a description of the firm's experience, philosophy, and approach relative to alternative investment polices. He stated the firms should be asked to describe their experience and approach relative to their general consulting experience, particularly with respect to those things they are asked to describe under number 17. Mr. Moore referred to page 14.11, number 23, and suggested the question be broadened to inquire as to the nature and break down of the types of fees or revenues the firm receives, including soft dollar arrangements relative.

President Romero inquired if the existing contract with PCA was on a retainer basis. Ms. Bhatia responded in the affirmative. President Romero inquired if PCA had any comments with regards to the Board's concerns or changes to the language in the RFP.

Ms. Sarah Bernstein (PCA) approached the podium.

President Romero recognized Ms. Bernstein.

Ms. Bernstein expressed that Mr. Moore's comments and detailed suggestions were appropriate. She indicated that DWP's RFP was all-inclusive for full general consulting as well as some very specialized areas. Ms. Bernstein commented some of the Department's peers typically bid out separately to ensure they get expert consultants that really specialize, or accept bundled bids. Ms. Bernstein returned to the audience.

Mr. Vazquez referred to page 14.4, the first paragraph of the agenda packet, and suggested a change in the language from, "The Consultant must have under management, total client assets of at least $ 8 billion" to "must be providing consulting services to clients having assets of at least $8 billion."

15. Report on Retirement Planning Seminars – 2004-2005

Ms. Bhatia stated item 15 concerns the Retirement Office conducting retirement seminars for perspective retirees. She explained Human Resources has begun presenting the retirement seminars, but now the Retirement Office has begun taking over the coordination of these seminars. Ms. Bhatia pointed out a calendar of the seminars for 2004 was provided in the agenda packet, along with a tentative schedule for 2005, which needs to be finalized in terms of logistics. President Romero thanked staff for complying with the Board's request.

Mr. Moore inquired if we had considered making the estate planning portion of the seminar would be available to the retirees. Ms. Bhatia responded this was the plan, and is discussed in the third paragraph of the memo on page 15.1 of the agenda packet.

Ms. Calvache noted that an employee's partner or spouse is also invited to the retirement seminar, and inquired if it was possible to videotape the seminar in case those individuals are unable to attend. Ms. Bhatia responded that staff would look into Ms. Calvache's request. Mr. Vazquez expressed it would be a good idea to develop a video presentation of the retirement seminars and make them available for DWP offices in outlying areas.

16. Duties and Responsibilities of Management Analyst over Retirement Seminars

Ms. Bhatia explained item 16 was a description of the duties and responsibilities of the Management Analyst II, Mr. Conney Williams, who was hired to this position to coordinate the retirement seminars. She added the memo included in the agenda packet elaborates on the duties of that position and was also discussed under item 15.

17. Retiree Reimbursement: Additional Tax Expenses for 2003 for 1099R Problems

Ms. Bhatia informed the Board that three retirees had sent written requests to the Retirement Plan Office for reimbursement of costs incurred in connection with the amended tax returns they filed, which was related to the inaccuracies of the 1099Rs that were encountered earlier in the year. She also pointed out that Price Waterhouse gave staff an opinion that just because a member's taxable income was overstated, it did not mean they had to file amended tax returns, which is discussed in the memo on page 17.1 of the agenda packet. Ms. Bhatia stated it was up to the Retirement Board whether or not reimbursement should be processed. She added staff was not recommending reimbursement due to the fact the retirees were informed of the inaccuracies of the 1099Rs and that they would be receiving corrected 1009Rs,and did not necessarily have to be filed.

Mr. Moore pointed out that the retirees went through a very bad time in the February/March period due to no fault of their own. He indicated it was due to the way the 1099Rs were issued and the lack of communication about what was happening initially. Mr. Moore expressed that the Retirement Plan, Retirement Board, and Retirement Office staff are responsible and the Board should honor the request of those retirees who have taken the initiative to request reimbursement with an invoice of their redo of taxes. Ms. Bhatia agreed it was not the fault of the retirees and that staff was just asking for direction from the Board on the issue. She suggested the Board consider the following questions when making their decision: 1) Should all retirees be asked if they incurred costs redoing their taxes, 2) how many more members would be requesting a reimbursement, 3) what would the requirements be for retirees to apply for a reimbursement, 4) what would the potential liability to the Plan be, 5) is there a dollar limit that should be set on the amount of reimbursements, and 6) should there be a deadline set for applying for a reimbursement.

Ms. Calvache inquired when the reimbursements from the three retirees were requested. Ms. Bhatia responded both of the letters were received in April. Ms. Calvache suggested only reimbursing the three retirees who had already submitted their request. Mr. Moore agreed with Ms. Calvache, adding an invoice reflecting the redo should be submitted along with the request with a $50.00 limit. Ms. Bhatia clarified that one of the reimbursements requested was asking for $204.00 and another for $108.00. Mr. Moore commented the figures were high for a redo of taxes because the tax preparer should already have all of the information entered. Ms. Bhatia responded the invoices reflected the preparation fee for redoing their taxes and submitting an amended tax return.

President Romero expressed his concern that paying the reimbursement for the three retirees would set a precedent and thousands may be submitted thereafter. Mr. Moore stated he is concerned about setting precedents also, but in this particular instance, it seems the Board is obliged to reimburse the retirees since the Retirement Board and Retirement Office are responsible in creating the problem. Mr. Martinez inquired when the word gets out that three retirees were reimbursed, what does the Board do when other requests come in. He further inquired if the Board would consider the requests on a case-by-case basis and what parameters would be set.

Mr. Vazquez inquired if staff had responded to the letters submitted. Mr. Williams stated the individuals were responded to telephonically. Mr. Vazquez inquired what was the general idea of the conversation. Mr. Williams responded that staff explained to the individuals their request would be presented to the Board and the Board would make a decision as to whether or not there would be any type of reimbursement made. Mr. Vazquez inquired if there were any telephone requests asking if a reimbursement would be given. Mr. Williams responded there were a few inquiries regarding retirees having to redo their taxes and having higher taxes. Mr. Vazquez indicated he was leaning towards trying to reimburse individuals if they request it in writing and provide a copy of an invoice for documentation of cost incurred for an amended return.

President Romero inquired how the Board would determine what is an acceptable reimbursement. Mr. Williams stated another question would be how to inform those individuals who are unaware of a reimbursement and that there is a deadline. Commissioner McCallum also expressed his concern of setting a deadline when retirees unaware of the option, and also the opening up of liability to the Plan. He suggested if the Board decides to grant the reimbursement, they should do so for all of the affected retirees and not just the three individuals who inquired about a reimbursement.

Ms. Bhatia pointed out that the overstatement of the year-to-date taxable income in 2003 would be offset by the Board's decision to report eleven monthly pay periods for 2004.

Mr. Moore motioned that those retirees who provide invoices stating the cost of having to redo their taxes be compensated at a limit of $200.00 with no deadlines. The motion failed due to lack of a second.

18. Authorization for Expenditure to Determine Actuarial Cost of Half-Time Benefits to be Provided by Plan Pursuant to Half-Time Agreement Between LADWP and IBEW

President Romero introduced item 18 and inquired if IBEW had reviewed the agreement. Ms. Bhatia responded that the Department had already entered into an agreement with IBEW to provide benefits for certain half-time employees, and that the Board of Water & Power Commissioners and the City Council will be approving the amendment to the MOU on September 7, 2004. She stated, in the meantime, staff wanted to avoid unnecessary delays as far as implementation and is requesting authorization to go forward in having the actuary do the required study on the cost. Ms. Bhatia pointed out that Resolution 05-18 in the agenda packet mentions that the cost of the study is not to exceed $15,000.

President Romero expressed his only concern with this process is that in the past it has been a three-step process. He explained that at times when resolutions are approved by the Retirement Board, are presented to the DWP Board of Commissioners, and come back to the Retirement Board for final approval, it can be perceived that changes could be made when it goes to the DWP Board. Ms. Bhatia clarified if there are any changes to a resolution it is required to come back before the Retirement Board.

Ms. Calvache moved approval for Resolution 05-18. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

Mr. Vazquez requested going back to item 17 and referred to the last paragraph of page 17.2. He pointed out that staff was seeking direction and inquired if it was understood by staff, that by the motion failing, the Board is directing them not to reimburse DWP retirees for the cost of redoing their taxes. Ms. Bhatia responded this was understood.

19. Consideration of Contract Agreement Extending Bank of New York's Contract

Ms. Bhatia reported that at the last Board meeting of July 21, staff proposed the Board extend the Bank of New York (BNY) contract for three months. She stated, at that time, the Board requested a report on the site visits at the custodian banks and a report from PCA. Ms. Bhatia informed the Board that staff was requesting an extension for another three months and BNY has agreed to the extension. She stated Resolution 05-19 extends the contract through February of 2005, making it a six-month extension from the point the contract expires. She added the amendment was included in the agenda packet. President Romero inquired if there was still the normal provision in which the Board can cancel within 30 days. Ms. Bhatia responded in the affirmative.

Mr. Vazquez inquired how the end date of the contract fits in with the date for the selection of a custodian bank. Ms. Bhatia responded this was the reason staff was recommending the Board extend the contract. Mr. Martinez moved approval of Resolution 05-19. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

20. Pre-Trade Estimates of Transitioning Costs for International Developed Equity and Other Funds

Ms. Bernstein approached the Board table.

President Romero recognized Ms. Bernstein.

Ms. Bernstein informed the Board a memo was included in the agenda packet, which will walk them through the pre-trade analysis that PCA requested from the Department's four possible transition managers, and the investment managers for the international and emerging markets. She stated it was assumed that the four new investment managers would be funded out of the Boston Company remnant portfolio. Ms. Bernstein reported that PCA was recommending the Board use a transition manager to liquidate the Boston Co. remnant portfolio and fund each new international manager with cash. She stated PCA was also recommending the Board use commingled fund vehicles for the emerging markets managers because it would be a much less expensive way than bidding out to a transitional manager for building the portfolios.

Ms. Bernstein referred to a table on page 20.2 of the agenda packet and explained the estimates to the Board. She pointed out that in Boston Company's case, if the Board chooses to go with a commingled fund, they would need to be funded with cash because these are the rules of the firm's commingled vehicle. However, T. Rowe Price would accept either cash or securities. Ms. Bernstein referred to a table on page 20.5 reflecting investment manager bids and pointed out that Boston Company's 37-50 basis point range is the direct cost if one funds them as a separate account vehicle. However, if funded as a commingled vehicle the costs to the Plan for investing would be spread across the whole vehicle so there should be $0 direct cost to the Plan. If the Board chooses to go with a separate account with T. Rowe Price, the firm estimates it will be quite expensive. Ms. Bernstein reiterated that PCA recommends using a transition manager for one side, then have each investment manager build their own portfolios or choose a commingled vehicle.

President Romero noted there was a current Plan transition manager in the audience and requested their perspective on PCA's recommendations.

Mr. Kal Bassily of Bank of New York approached the podium.

President Romero recognized Mr. Bassily.

Mr. Bassily stated the main purpose of transition management is to minimize overall transition costs when one is switching assets from one structure to another. He added over the last few years we have all come to realize that there is a whole lot more to cost than just commissions and market impact. Mr. Bassily explained that without a transition manager, the investment manager would sell the domestic equity and the Plan would sit in cash until the asset is settled. He stated the cash would then be moved to the new managers; and subsequently, the Plan will be sitting on cash for 5 to 10 business days. Mr. Bassily reported the volatility of the international equity portfolio is between 18% - 20%, which means the daily volatility of that portfolio is about 1%. But if we look at a transition as a passive event and are not taking views on the direction of the market, we look at the downside risk. He stated transition management gets you around the downside risk when buying and selling so you are not sitting in an asset class that has a very low return. He stated it is a matter of what kind of risk the Board is willing to bear if you do not want to synchronize your sells and your buys. He indicated the range of their overall cost if they sell is only 27-33 basis points, but if they sell and buy international equities it would be 41 basis points. He explained it is higher because the transaction cost in international equities is higher. He stated whether a transition manager establishes the target portfolio or the new investment manager does that, the fund is going to incur the transaction cost and there is no way around that. He stated what has not been included in the figures PCA provided is the tracking error between the cash and the target portfolios. He stated having looked at the portfolios and knowing the volatility, he estimates it would be about 1% per day. He expressed that hiring a transition manager to undertake the whole assignment would result in a lot of savings.

Ms. Bernstein stated Mr. Bassily made very valid points, and PCA purposely left off opportunity cost estimates because if the market goes down in the next couple of days when DWP's portfolio is actually in transition, nobody knows which way the market will go.

Mr. Robert Harkins of Boston Company approached the podium.

President Romero recognized Mr. Harkins.

Mr. Harkins stated it did not matter to the Boston Company whether a commingled vehicle was used or a transition manager. He pointed out when looking at the asset class, year to date, Boston is over 300 basis points ahead of the index and has accomplished this with less volatility. Mr. Harkins argued he did not see the market volatility being as high as1% everyday. He expressed the most important thing one can do in getting a portfolio from one asset class into another is making sure there is an exact complete accurate buy and sell list. Mr. Harkins stated the biggest mistake made is buying and selling the wrong securities and having to sell them again and finalize the portfolios, which could take days. He reported Boston Company, on the emerging side, normally takes 2.7 days to complete the buy and sell of the transition and 1.3 days on the developed side.

Mr. Moore expressed he was very comfortable with the recommendations that were given by PCA. Mr. Vazquez referred to Appendix A and the commission costs, stating the costs were all over the place and inquired how reliable were the estimates given by PCA. Ms. Bernstein responded when looking at the set of four international managers' bids, the taxes and fees estimates come out to zero. She explained Frank Russell is a transition manager who conducts their business slightly different than the others by bidding out a lot. Therefore, they are typically heavy on the commission cost relative to everyone else. Ms. Bernstein indicated each firm was running their own individual models and PCA did not provide a detailed analysis. She stated the estimates were within a range and there are no hard numbers. Mr. Vazquez referred to the "Total Cost Estimate" of basis points for the transition managers, wherein Ms. Bernstein stated the numbers were close to each other. Ms. Bernstein responded that 7-12 basis points was a minimal difference because they were pre-trade estimates. She added the four banks and four managers did provide reasonable estimates. Mr. Moore pointed out the commission cost estimates were the firmest set of numbers in the entire table.

Mr. Vazquez commented at some point the Board is going to go forward with the transition, and later in the agenda packet it is recommended staff get transition contracts in place with all of the firms so that the Board has the opportunity to select among them when it chooses to do the transition. He stated the Board was going to be looking to PCA to make a recommendation as to which manager to choose and on what basis. He added he did not know what the considerations are apart from the numbers provided in the table.

President Romero indicated that no decision would be made because it was for informational purposes and PCA would submit a recommendation later. Mr. Moore clarified a decision is being made with respect to whether or not the Board is going to go with a transition manager approach. President Romero pointed out the way in which the agenda item was worded the Board could not take action and asked Attorney Wilkinson his opinion. Attorney Wilkinson responded he did not have a problem with the wording of the item since the Board is just basically giving direction. Mr. Moore added the ultimate decision would be made when the recommendation comes back but they needed guidance in terms of how to structure the package they will be bringing back before the Board. President Romero inquired, for clarification, if the Board was making a decision as to whether to use the transition managers on the sell side for the remnant or to do it on both sides. Ms. Bernstein stated this was the first decision that needs to be made. She stated if the Board decided to get a transition manager for the sell side then BNY is clearly a viable candidate and a decision could be made today. Ms. Bhatia clarified if the Board were to choose BNY, staff would have to revisit the agreement. Mr. Bassily agreed with Ms. Bhatia that the contract between DWP and BNY would have to be revisited. However, the discussions would be brief since the firm has previously executed three transition contracts with the Department.

President Romero expressed he was comfortable with using BNY. Ms. Calvache agreed with President Romero. Mr. Moore stated he was also comfortable with BNY and had received enough information to make a decision. Ms. Calvache moved the use of BNY as a transition manager for the developed and emerging markets.   Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

Mr. Vazquez inquired as to when the transition managers would be funded. Ms. Bhatia indicated staff was given direction at the last Board meeting to continue with completing the contracts and the funding was to be based on the present discussion and whatever decision the Board made. Mr. Vazquez pointed out it would also depend on when the managers met all of the requirements. Ms. Bhatia responded, with regards to insurance, some of them are pending but they are close. She then drew the Board's attention to a memo from PCA that was presented at the last Board meeting recommending the sequence of the transition. Ms. Bhatia stated if the Board adopts that sequence, along with the recommendations presented today, then staff can proceed.

Mr. Vazquez stated a motion was needed on whether or not to except PCA's recommendation. Mr. Moore moved to accept PCA's recommendation with respect to BNY being transition managers on the sell side and providing cash to the managers buying the securities. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Ms. Bernstein stated PCA recommends that the Plan should consider having pre-signed contracts with their bench of transition managers. She explained the pre-signed agreements would allow the Plan to rapidly select and implement transition with any of their bench of managers without running into the difficulty with a given manager who does not already have a contract with the Plan.

Mr. Vazquez noted there was a second PCA memo on page 20.6 – 20.9. He stated on page 20.9, PCA provided the Board with two options having to do with when accounts are funded. He then inquired if the Board had taken action on any of the options. Ms. Bhatia stated there was no action taken and staff was told to come back and have PCA do a pre-trade analysis. Ms. Bernstein clarified the reason they assumed the Boston remnant for both the emerging markets and international as the funding source is because it was indicated that those were moving faster so it made sense to fund them. She stated if any of the contracts changed and something else comes up much quicker, then the Board would want to consider a different funding source. However, this was based on the phase one contracts going forward, which are the international and emerging markets. Mr. Vazquez inquired if the Board needed to choose one of the options in the memo. Ms. Bernstein responded in the negative, adding it was an old memo that staff included in the agenda packet for background information. Mr. Moore commented, assuming the Board goes ahead with funding as proposed, there is still the issue of what to do with any remaining Boston remnant portfolio. Ms. Bernstein responded that at the next Board meeting, PCA would provide the Board with a pre-trade analysis for the high yield, and the small cap, domestic equity. She explained, within that discussion, PCA would provide an analysis of whatever is left from the Boston remnant portfolio.

Mr. Harkins stated as the remnant becomes smaller, the granularity of the exposures is going to become larger. He indicated one of the things Boston Company is monitoring for the Department is how at each funding level the tracking error to the S & P 500 changes, as well as the economic sector concentrations and the concentrations on individual holdings. Mr. Harkins stated after the Boston Company gets through the next transition, they would come before the Board with an update. He added the firm will also assist the Board in monitoring the transition in order to make good decisions when the granularity gets to the point it no longer makes sense to have that portfolio in existence. President Romero requested the Boston Company include the process of how they will take 10% off of every asset, and also what their process will be for the remnant. Mr. Harkins and Mr. Bassily returned to the audience.

21. Reports on Insurance for Future Investment Managers

Ms. Bhatia introduced item 21 as a report on a comparison that was made on the insurance requirements of different retirement plans. She added Mr. Neaman was present for any of the Board's questions.

Mr. Avery Neaman (Risk Management) approached the table.

President Romero recognized Mr. Neaman.

Mr. Vazquez commented there were two separate coverage requirements, one requirement for errors and omissions and a separate one for crimes. He stated the maximum limits seen for crime in any other pension plan management contract was $50 million, but the maximum seen for errors and omissions was $25 million. Mr. Neaman stated this was not indicated in his report but one of the PCA reports did find a $25 million maximum for professional liability. Mr. Vazquez stated this was the coverage that has presented the most problems in the manager search because the Department's requirement seems to be out of the ballpark with regards to what most of the other funds are requiring.

President Romero inquired if there was anything the Board would need to discuss at a future Board meeting. Mr. Vazquez commented, once the Board gets through the initial transition, with regards to real estate and alternative investments, they needed to consider what, if any, are the insurance requirements the Board should review for the Plan as compared to other pension plans. President Romero thanked Mr. Neaman for all of his hard work. Mr. Neaman returned to the audience.

22. Resolution Authorizing the Emerging Market Managers to Manage the Emerging Market Equity Mandate by Utilizing a Certain Structure

Ms. Bernstein stated, as discussed, PCA was recommending a commingled vehicle be used for both emerging market managers. Mr. Vazquez moved approval of resolution 05-20. Seconded by Mr. Moore and carried unanimously after the following vote:

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

23. Resolution Extending Pension Consulting Alliance, Inc. (Contract No. 126) for Six Months from October 21, 2004 through April 21, 2005

President Romero introduced item 23 as a resolution extending PCA's contract for six months through April of 2005. He inquired if there were any changes to the contract other than the extension. Ms. Bhatia responded in the negative.

Commissioner McCallum moved approval of resolution 05-21. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

24. Oral report from the City Attorney on TCW Sale of Ford Bonds - $25 million Ford 8.9%, 01/15/3032, cusip 345370BV1

Attorney Wilkinson indicated there had been an exchange of emails between he and Mr. Robert Klausner (Klausner & Kaufman), research on this issue is nearing completion, and there will be a report ready for the next Board meeting. President Romero recommended agendizing item 24 for the next Regular Board meeting.

25. Discussion of Insurance Requirements for Passive Funds Management

Ms. Bhatia indicated item 25 was added to the agenda at the request of Mr. Vazquez and it discussed the insurance status of the two investment managers for the passive domestic equity fund. She reported Merrill Lynch currently has $25 million of professional liability insurance and is required to have $50 million. Northern Trust has provided all insurance requirements except they do not want to provide a waiver of subrogation. Ms. Bhatia stated the memo included in the package discusses options in dealing with the situation. She explained Option 1 was to accept the parent guarantee proposed by Merrill Lynch, which would provide the Plan with some protection; and, in addition, the Board could require a collateral account to be opened and used in the event there is a downgrade in their investment rating. Ms. Bhatia explained Option 2 would have one manager manage the entire passive fund portfolio.

Mr. Vazquez commented that neither of the passive fund managers has satisfied all of the insurance requirements. He stated, in speaking with Mr. Neaman, it is not likely Northern Trust will be submitting a waiver of subrogation. Mr. Vazquez expressed the economics do not make it prudent for Merrill Lynch to come into compliance with the insurance requirement because they would be managing the portfolio at a loss. He stated when the Department initially went out for a passive fund manager, it was for one manager to manage $1.5 million, and on that basis this would not be an economic loss if Merrill Lynch got the additional $25 million in insurance. Mr. Vazquez suggested the Board either go back to the concept of one manager with the understanding that this manager (Merrill Lynch or Northern Trust) will fully meet the insurance requirements, or a second option of accepting Merrill's offer of a Parent Guarantee for the remaining $25 million.

President Romero stated, as far as Northern Trust is concerned, if the Board were to give them 100% of the fund, the firm would still not meet the waiver of subrogation. Mr. Neaman commented that communications have not been good with Northern Trust, in the sense they have made promises and did not follow through. President Romero expressed Mr. Vazquez's suggestion makes sense just from the standpoint of Merrill Lynch's willingness to make up the $25 million in insurance and attending the majority of the Retirement Board meetings. He added rarely is there a Northern Trust representative in the audience at the meetings. President Romero inquired what would be Mr. Vazquez's final suggestion. Mr. Vazquez stated his final suggestion is that a letter be sent to each of the managers stating they have not met the Department's insurance requirements and the original mandate has been changed to one manager for the $1.5 billion fund. In addition, he said the letter should ask if either firm would agree to meet the Department's full insurance requirements if selected to manage the fund, and then see what the responses are. Mr. Vazquez inquired of Joseph Silver (Merrill Lynch) if he had any idea how his firm would respond.

Mr. Joseph Silver of Merrill Lynch approached the podium.

President Romero recognized Mr. Silver.

Mr. Silver stated Merrill Lynch had acted in good faith up front and was under the understanding that the guarantee would be sufficient, but this is not the case as it stands today. He indicated his firm had already taken steps and worked with Mr.

Neaman to secure a letter of credit if the Board chooses to use one manager. Mr. Silver stated adversely, if the mandate remains the way it is, along with the guarantee from Merrill Lynch, they would put forth an agreement stating if their rating is downgraded to a certain level and would incur the cost to secure a letter of credit. Mr. Moore clarified that Mr. Vazquezs' question is how Merrill Lynch might react if the Board asked the firm to assume the full insurance responsibility that was originally contracted for if granted the entire portfolio. Mr. Silver responded if Merrill Lynch received the entire portfolio they would submit a letter of credit, which Mr. Neaman has said is acceptable, in lieu of the guarantee that is already in place.

Mr. Vazquez inquired what type of transition cost would the Board be looking to incur. Ms. Bernstein responded the costs would be very minimal because they are mirroring products and passive equity. She added PCA would be comfortable if there was one passive account manager versus two.

President Romero inquired if Merrill Lynch were to assume Northern Trust's account, would they be selling off any securities. Mr. Silver stated, in talking to the firm's quantitative team, there would be no cost and this could be put in writing. He stated Merrill Lynch would want to do a full analysis of Northern Trust's portfolio, but in essence, everything would be transferred in-kind because they are holding the same securities.

Attorney Wilkinson commented this was just a discussion on insurance requirements, but informed the Board that any other decisions would have to be a future agenda item. President Romero requested staff agendize the issue for the next Board meeting.

Mr. Moore thanked Mr. Vazquez for bringing up the topic and running the numbers. He also stated he was not aware of the history and apologized to Northern Trust. However, they still have not earned their way back into the Department's good graces, just based on their lack of communication. Mr. Vazquez commented that representatives from Northern Trust had met with Mr. Rozanski just last week.

Mr. Moore stated, in response to Attorney Wilkinson's remarks, the Board has a choice of starting with option 1 or 2 and is giving direction to staff to pursue option 2.

26. PCA's Report on BNY Transition of WPERP Fixed Assets to Core Fixed Income Managers

Ms. Bernstein reported the transition of the Plan's fixed assets to core fixed income managers went very well and BNY provided a thorough analysis of the costs. She stated PCA checked with each of the managers and they also conveyed the transition was handled appropriately on an operational scale.

27. Retirement Plan Manager's Comments.

a) DWP Plan Newsletter for Retirees (August 1, 2004 Edition).

Ms. Bhatia reported the Board members had already received a copy of the August 1, 2004 Newsletter for DWP retirees.

b) Status Report on Upcoming Employee Member Election to Fill Vacant Seat on Retirement Board

Ms. Bhatia stated the election guidelines included in the agenda packet were submitted to the Board of Water and Power Commissioners at yesterday's meeting. President Romero expressed his concern that IBEW is holding a major election around that same time period which may confuse the membership. He requested the election process be deferred for 30 days. Ms. Bhatia referred to a calendar on page 27b.11 of the agenda packet and pointed out the new Board member would have been in place at the end of 2004 or the beginning of 2005.

c) General Items.

28. Future agenda items.

The meeting was adjourned at 12:02 p.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary