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

MINUTES – September 15, 2004

Present:

Lilly Calvache	Chairperson
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member
Henry Martinez	Acting General Manager

Absent:

Gerard McCallum II	Commissioner
Javier Romero	President

Others Present:

Robert Rozanski	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Gudino	Recording Secretary
Michael Wilkinson	Deputy City Attorney
Sarah Bernstein	Pension Consulting Alliance

Chairwoman Calvache called the meeting to order at 10:13 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Rozanski indicated there was a quorum of the Board present.

PUBLIC COMMENTS

There were no public comments.

Mr. Rozanski informed the Board he would be leaving the meeting at 11:30 to catch a flight and Ms. Bhatia would be replacing him as secretary at that time. Chairwoman Calvache inquired if Mr. Rozanski would be providing his input regarding the firms being interviewed before he left the meeting. Mr. Rozanski responded he already had discussions internally with Ms. Bhatia and PCA, and he feels that, generally speaking, there was a consensus. He added there might be questions the board may want to ask with respect to certain aspects, such as securities lending. He pointed out a memo in the agenda packet from PCA summarizing their recommendations.

1. Interview and possible selection of a Custodian Bank (From those responding to the Plan's Request for Information – Custodian Bank):

a. Bank of New York

Mr. Louis Mastro, Vice President & Relationship Manager; Ms. Maria Allison, Manager of Client Services; Ms. Katherine Dinella, Vice President in Securities Lending Dept.; and Keith Kuhn, Chairman and CEO from the Bank of New York approached the table.

Chairwoman Calvache recognized the representatives from the Bank of New York.

Mr. Mastro introduced the representatives from the Bank of New York (BNY) and described their responsibilities.

Mr. Kuhn indicated, as the Department gets into full discretion, they would really be able to utilize BNY's capabilities. He reported the firm is the second largest custodian in the world, has almost $9 trillion in assets, and spends an enormous amount of money on the technology side in order to keep their products fresh and current. Mr. Kuhn stated BNY serves 94 public retirement systems in the U.S.; therefore, the Board should be comforted in knowing the firm is aware of the challenges. He added the firm also has the largest municipal custody practice in the state.

Mr. Kuhn outlined the firm's client services and announced that Tom Perna (Senior Executive) who built up the firm's staff and management decided to leave the Bank of New York. However, there would be no change in the direction of focus. He stated the service team is led by Mr. Mastro, who will ensure the Plan is happy with BNY's services and resolve any issues as soon as possible. Mr. Kuhn also indicated that Ms. Allison and Mr. Baca would work with the Retirement Office staff in making sure the trades are positioned, there is reconcilement of any cash and short-term securities, and that the manager's investment capabilities are maximized. He added, Ms. Kathy Connaghan serves as the technical consultant and her job is to make sure staff is getting the most out of their online systems.

Mr. Kuhn reported BNY has an extensive history serving the Water & Power Retirement Plan (WPERP) for 15 years and has transitioned over $4 billion in assets to new managers and helped establish 20 new accounts to take on the new managers. He stated the firm has most recently helped the Plan in moving into international investing.

Mr. Mastro referred to a chart reflecting a proposed service package for WPERP, in which BNY would perform daily audit compliance monitoring, enhanced proxy processing services, and class action filing and reporting.

Mr. Mastro explained compliance monitoring as an independent third party who verifies the investment managers hired are adhering to the established investment guidelines. He stated the monitoring would be done on a daily basis with no Retirement Office staff work up with regards to the guidelines. Mr. Vazquez inquired if this was a new feature being offered by BNY. Mr. Mastro responded his firm had the capability to provide this feature for a long time, but knew the Board was in the process of going through the transition.

Mr. Mastro explained the firm's proxy processing would give WPERP the ability to monitor their investment manager's proxy voting by overseeing the compliance with its proxy voting guidelines and access to a system which provides on-line reporting, meeting notifications, and voting.

Mr. Mastro stated, with regards to class action filing and reporting, BNY would take this workload off of staff and would provide reports reflecting the status of all class action suits. He concluded by stating the services being provided by BNY would save staff time and is a systematic way of managing risk to the portfolio and the trustees. He added the aforementioned services were included in the flat rate price submitted. Mr. Vazquez inquired if BNY's competitors provided the online proxy voting and class action filing. Mr. Mastro responded other firms may provide those services, but he did not know if it was included in their pricing. Mr. Martinez inquired if the online services BNY would be providing would be user friendly. Mr. Mastro responded it was very user friendly and the firm had already demonstrated the use of each services to the Retirement Office staff at the onsite visit.

Mr. Vazquez inquired of staff if the WPERP had ever had any class action suits filed. Mr. Rozanski responded in the affirmative. Mr. Vazquez inquired how frequent were the suits. Ms. Bhatia responded they were not very frequent. However, the bank had recently provided information on one that staff was currently working on. Mr. Kuhn commented that with a Plan the size of DWPs' there is an average of 5 to 10 class action suits, which take up a lot of time in the research, filing, and reporting of the suits.

Ms. Allison indicated she would like to review with the Board the monthly investment manager reconciliation, data interfaces, and customized monthly performance reporting. She stated the firm believes those three areas can assist staff and the Board in managing risk and reducing the time staff spends on these functions.

Ms. Allison stated BNY proposes that the firm reconcile their monthly custody statements with each of WPERP's investment managers. She expressed the importance of this is to ensure their books are in balance with each of the Department's managers. She explained that the benefits of this service is that the Retirement staff will no longer have to perform the reconciliation, BNY becomes WPERP's book of record, and will ensure that BNY provides accurate and timely performance reports.

Ms. Allison explained that BNY would like to provide resources to work with the Retirement Office staff in developing an interface between the firm's system and staff's accounting system. She explained the benefits would be enabling the direct loading of BNY accounting information into WPERP's general ledger, reduce staff's workload by eliminating manual data entry, and reduce the risk of data errors.

Ms. Allison indicated that currently BNY was providing WPERP's consultants performance information on a monthly basis. She stated the firm would like to expand the information they currently provide and do formal monthly performance reporting for the Board and staff. She explained the benefits would be a reduction in time the Retirement staff will have to dedicate in preparing monthly performance reports. Ms.

Allison stated BNY also proposes they customize their performance reports to meet the WPERP's specific needs. She then briefly reviewed two sample reports that were created by using DWP's data.

Ms. Dinella reviewed the firm's securities lending, stating they have been operating this program since 1977 and have been the lending agent for DWP since 1995. She reported the firm currently has over $260 billion out on loan on behalf of over 200 clients. Ms. Dinella reported that in the most recent international securities finance survey BNY ranked number one in securities lending services among its peers, and number one in income generation reporting and transparencies. She stated the firm would continue to offer the Department a very custom tailored flexible program in accordance to the Department's specific guidelines. She stated, in addition, BNY offers broad indemnification against borrower default.

Mr. Kuhn concluded by stating the WPERP should retain BNY as custodians because they are one of the industry leaders, have significant public fund retirement system practice, a highly experienced team, and an extensive operating history with the Department. He then referred to their revised fee proposal stating it was a flat fee for 5 years in duration and provides very attractive management fees on the short-term side. Mr. Kuhn expressed the up side of keeping BNY is there is no contract to renegotiate on the custody side or securities lending side, no notice that has to be given to brokers to notify them the Department is changing custodians, no need to reconcile the old custodians position with the new custodians position, and they can start and improve the Department's securities lending revenue dramatically.

Mr. Moore noted that staff and PCA's analysis in trying to normalize the earnings on the securities lending indicated that BNY had proposed investing in securities that were seven years in maturity, rather than five or three. He then inquired what percentages of the large public funds are actually investing on that long term of maturity for such securities lending. Ms. Dinella responded that a majority of the firm's large public funds do have broad reinvestment guidelines, which go five years for asset backed securities and some that go out seven. She added the majority goes between three and five years as opposed to seven. Mr. Moore inquired if she were to quantify overall the portfolios BNY managers for all of their customers, what percentage would she say is invested in seven year maturities. Ms. Dinella responded 20%.

Mr. Vazquez inquired if BNY's custody fees, including performance measurement, was $110,000 or $125,000 and inquired of Ms. Bernstein if this was correct.

Ms. Bernstein approached the podium.

Chairwoman Calvache recognized Ms. Bernstein.

Ms. Bernstein responded that in PCA's review memo they tried to make sure that every bank's estimate was comparable in terms of the services that were included, but the $125,000 includes a couple of line items.

Mr. Vazquez inquired if there were separate custody banks for managers in commingled funds. Ms. Bhatia responded in the affirmative and stated that Wells Capital was managing the Disability and Death benefit Funds under a commingled account structure, and for those accounts Wells Fargo was the custody bank.

Mr. Vazquez inquired how BNY's custody system works for a commingled fund. Mr. Mastro stated for example, with Wells Fargo commingled fund, they would reflect it on their accounting statements as a line item and do not really have any individual assets associated with the securities. Mr. Mastro stated, unfortunately, they could not lend those securities. Mr. Vazquez inquired if they were excluded from the firm's securities lending capabilities. Ms. Dinella responded they had been excluded.

The representatives of Bank of New York left the meeting.

b. Mellon

Ms. Kerrie Lloyd, Vice President; Mr. Vincent Sands, Executive Director & Sr. Vice President; Mr. Martin McGuinn, Chairman and CEO from Mellon Financial Corporation approached the table.

Chairwoman Calvache recognized the representatives of Mellon Financial Corporation.

Ms. Lloyd introduced herself and the representatives of Mellon.

Mr. McGuinn reported the firm was founded in 1869 and in recent years has narrowed their focus to asset management, custody, and various processing businesses. He stated the firm has a major presence in the western area, wherein they represent a number of businesses.

Mr. Sands stated Mellon serves some of the largest corporate employee benefit funds and public funds in the world, using sophisticated products and services. He further stated Mellon has invested heavily into technology and their clients have expressed it has added value to their investment process, staff and fund. Mr. Sands reported that Mellon is the largest provider of performance measurement analytic services in the world and has great products to aid staff in understanding the returns of the investment managers. He stated they have a great securities lending program that provides a fair return to their customers at modest and reasonable amounts of risk. Mr. Sands explained the firm's philosophy to client servicing, which consists of providing the client with a custom tailored solution. He stated the Mellon team is experienced, understands the business, and is hard working.

Mr. Moore requested background on how Mellon handles commingled accounts because it is his understanding that the firm has something called "look through analytics".

Mr. Charles Turgeon (Client Executive) of Russell Mellon approached the podium.

Chairwoman Calvache recognized Mr. Turgeon.

Mr. Turgeon stated the firm has a capability called “look through analytics”, which enables the client using institutional commingled fund the ability to exploit the underlying holdings of those funds and allows them to view their prorated share of ownership to the securities of those funds. The benefit is to be able to see the individual exposure to holdings of these commingled funds, but also to combine it with an actively managed portion of the portfolio to get meaningful rollup so one can see sector exposures, country exposures, and currency exposures, etc. Mr. Turgeon reported Mellon has in their database of commingled fund products, over 400 products where we load the holdings from managers on a monthly basis, all automated, and all electronic. Therefore, to the client on the online system it looks pretty much like an actively managed portfolio in view of the ownership of these holdings.

Mr. Moore noted that staff and PCA have reviewed the reports that Mellon submitted regarding the types of monitoring systems and were impressed with the fact it is user friendly. He then inquired how Mellon has found the interest on the part of other Board members of other organizations they have worked with in terms of the Board members finding utility and accessing that information themselves as opposed to relying on staff or consultants. Mr. Sands responded there were some board members that subscribe to the firm’s workbench product to be able to review it and get access to the information. He stated the firm has products such as “dashboard”, which gives a high level synopsis on a daily basis with key indicators of the performance of the fund. Mr. Sands further stated the interest did vary and many of the Board members do not subscribe, but would rather see the reports after staff has reviewed them. He indicated the firm has been able to reconcile with the investment manager so that the numbers that have been provided to the Board have been agreed to by all parties.

Mr. Martinez inquired how long has Mellon had the tendency to run the authorities management of the retirement system. Mr. Sands responded approximately 15 years.

Mr. Vazquez inquired which of the Mellon team is local. Ms. Lloyd responded she was local, along with Mr. Alexander Leonard who would be in charge of the whole team as the relationship manager and would be pulling in resources from the corporate offices in Pittsburgh. She stated DWP would have local client service and a representative from Mellon could attend every Board meeting in which they are needed as well as staff meetings and provide training and education throughout the time of their contract.

Mr. Vazquez inquired if Mellon provided for the Board to see proxy voting online. Ms. Lloyd responded in the affirmative. Mr. Vazquez inquired if the firm provided any services with regards to class action filing and reporting. Ms. Lloyd responded in the affirmative and requested Mr. Leonard to speak on this issue.

Mr. Leonard approached the podium.

Chairwoman Calvache recognized Mr. Leonard.

Mr. Leonard stated the firm would definitely handle all of the class action filings for the WPERP and would be able to file for the time periods Mellon has the holdings. He also stated Mellon would be able to work with the prior custodian and order the file on behalf of the securities that they held for the time period they were the custodians, which would relieve staff of all burden.

Mr. Vazquez inquired, with regards to securities lending, what was Mellon's approach to it versus their competitors.

Mr. Tom Daniels of Mellon approached the podium.

Chairwoman Calvache recognized Mr. Daniels.

Mr. Daniel's response was inaudible due to technical difficulties.

Mr. Moore requested that Mr. Daniels speak on the practice of organizations going out seven years with some of their investments. **Mr. Daniel's response was inaudible due to technical difficulties.**

Mr. Martinez inquired what was typically the transition period when the firm takes on a new client and the obstacles for success in making that transition happen. Mr. Leonard responded the typical conversion period is usually in the neighborhood of six to eight weeks in order for them to complete everything. He stated one of the key differentiators is the fact that Mellon has a dedicated business implementation team which helps with the conversion process. Mr. Leonard further stated the firm not only looks at the conversion custodian, but some of the other key items the Plan has going on right now, such as changing with the asset managers and then integrating this into their process plan. He explained that group walks them along through the conversion process from start to finish and when the conversion is complete this same group is also available for other special projects.

Mr. Martinez inquired, of the public fund clients that Mellon has had, how many have they lost in the last two years and why. Mr. Sands responded the firm has lost only one public fund client due to fees, not service. He explained in their procurement process the firm went in with a very competitive fee and the bids were public. However, one firm lowballed them and Mellon did not have the opportunity to respond. He stated if their track record were compared to their competition in the last three years, they fared extremely well.

Ms. Calvache inquired if Mellon's fees were negotiable. Mr. Sands responded the firm's fees were negotiable, but they had provided their best and final offer. Mr. Vazquez noted, in the fees firm structure, there is a flat fee of $125,000. Ms. Lloyd clarified their flat fee is $100,000, which includes all the performance and analytics they believe the Board can take advantage of to improve the status of the Plan. Mr. Vazquez inquired what the additional $25,500 was for. **Ms. Bernstein's response was inaudible due to technical difficulties**. Mr. Rozanski noted each of the respondents provided different levels of service and some of the flat fees included them and some did not. He stated PCA went through and looked at all of the services they felt were important to the Plan and then included those as part of the base fee, which is why those fees differ somewhat from what we are seeing.

Mr. Vazquez referred to page 8 of the custody and securities lending search submitted by PCA, and inquired about a footnote addressing additional fees that the Board is subject to incur from Mellon. He stated he did not see any additional fees from BNY. Ms. Bernstein responded the best way to look at it is to review the appendix where every single line item is detailed. Ms. Lloyd stated Mellon tried to include transitions and activity charges for all of the areas, in particular where they had extra charges. She listed those areas as foreign exchange, margin variation wires, and manual checks, adding she could not imagine how much activity DWP would have in those areas.

Mr. Vazquez commented that staff was not comfortable with Mellon in terms of their commitment to resources during any conversion process, but hopes the firm will be able to work with the Department in making sure they are comfortable and satisfied. Mr. McGuinn responded he would ensure that all of the necessary resources would be dedicated to make things happen successfully.

The representatives of Mellon Financial Corporation left the meeting.

Mr. Rozanski left the meeting.

Chairperson Calvache called for a brief recess at 11:25 a.m.

[Recess]

The Board meeting interviews reconvened at 11:38 a.m.

c. State Street

Ms. Karen Jacobs, Sr. Vice President, Managing Director; Yolanda Diaz, Vice President; Lisa Massena, Vice President; and Richard Blackman, Director, all from State Street approached the table.

Chairwoman Calvache recognized the representatives from State Street.

Ms. Jacobs introduced the representatives of State Street and briefly described their responsibilities within the firm. She reported out of their Alameda office their firm has over 100 staff members, 21 public fund accounts, over 30 master trust clients (relationship management only), and upwards of 35 performance and analytics accounts.

Ms. Jacobs emphasized that State Street focuses on investment servicing and management, and provides investment solutions for the institutional investor. She stated 85% of the firm's revenue stems from investment servicing with 15% coming from investment management. She stated they were the largest custodian and referred to a pie chart reflecting State Street's lion's share of the public funds market at 48%, which is over $1 trillion in assets, with the preponderance being in retirement assets.

Ms. Diaz reported that, in addition to the market share of public funds State Street services, they also experience long-term relationships with their clients. She expressed this was a reflection of the client service they provide, which is the bank's number one focus. Ms. Diaz pointed out their executive vice president reviews all of their annual client's surveys to make sure the firm adheres to their commitment of quality service. She stated the firm is very committed to community service both in a financial commitment as well as servicing. She then gave a break down of the firm's client service team.

Ms. Diaz outlined the firm's process and technology, stating they adhere to a daily audit allowing them to catch any errors early on in the process and not just at the month's end. She indicated all of their services were available online via the internet, which includes all of the Plan's information, service and market information, and performance measurement.

Ms. Massena reviewed State Street's performance and analytics, stating the strength and size of the organization gives them experience and expertise. She reported the firm has 425 plans and trusts they currently work with and in the Alameda office they have 25 employees working specifically in the performance and analytics area, four of which are consultants working directly with the clients.

Ms. Massena described the breadth of the firm's services, such as core performance analytic services (which represent return calculation), risk analysis, analytics and attribution, universe comparison, and trade execution reporting.

Ms. Massena began explaining how the firm works together to deliver high quality reports and services. She stated they strive to get the most accurate information reflected in the client's records and performance reports. Ms. Massena explained the firm performs two sets of audits; one from an accounting perspective and a second set of audits is conducted from a performance and analytics perspective. She further explained how the second audit assures that as performance numbers are computed, they are in line with the benchmarks and the expectations for the managers. Ms. Massena stated, with regards to the universe comparison services, they offer both the State Street universe and the Tucs universe. She stated the firm offers an integrated compliance system and service, which assists the client in monitoring transactions and activity in portfolios against their own investment policy.

Ms. Massena discussed State Street's differentiation of analytics overall. She stated the firm is known for the quality and timeliness of their services, the collaborative approach they take in working with clients, understanding of and responsiveness to the client's needs.

Mr. Blackman described State Street's securities lending philosophy, stating the firm optimizes risk-adjusted performance, managing risk through diligence and transparency, minimizing interference with investment operations. He pointed out the difference between State Street and other firms is their commitment, size, and experience.

Mr. Blackman stated in looking at the drafted investment guidelines provided by PCA, State Street submitted two estimates. He proposed the Department use a large pool that the firm offers for their ERISA clients. Mr. Blackman explained that pools offer liquidity and the Plan's cash flows, loans, or returns are offset against other participants in the pool. He stated the firm is suggesting a pool that is a quality "D" investment fund that has approximately $50 billion in assets. Mr. Blackman added, having an investment guideline tailored to the Department's own needs will leave them subject to their own volatility. He pointed out the difference in the investment guidelines reflected approximately a 3 basis point difference in return. He also stated given the WPERP risk return profile, the Board would have to decide on either an investment guideline with approximately 3 basis point less return, or the benefits of a larger pool with a slightly greater investment spread. He emphasized the one key thing the firm does not look to do is put volume on the book. However, they do look to maximize the intrinsic value under the risk free rate, which is essentially the overnight treasury repo rate.

Mr. Vazquez noted the representatives stated the firm has a daily discipline and inquired if they also do daily compliance monitoring. Ms. Jacobs responded in the affirmative. Mr. Vazquez inquired if one of the Plan's investment managers invested in a security that is outside of the investment guidelines would State Street be able to detect this error. Ms. Jacobs responded in the affirmative, adding after the trade occurs the system allows the firm to see it along with an email alert advising staff there is a security outside of the guidelines.

Mr. Vazquez inquired if the firm provided online proxy voting. Ms. Diaz responded State Street does not have that particular online service, but has partnered with a firm (IRRC) who would provide this service to State Street's clients. Mr. Vazquez inquired if State Street provided services in class action filings and reporting. Ms. Diaz responded the firm would provide assistance in the class action filing on behalf of the Plan and then, on a monthly basis, provide a summary of the status of the filings.

Mr. Vazquez inquired if the firm provides any access to the underlying investments in commingled funds. Ms. Diaz responded in the affirmative. Mr. Vazquez noted the firm was co-founded in 1792 and inquired what the firm did back in that time. Ms. Jacobs responded that, at that time, State Street was a bank. Ms. Jacobs pointed out that there have been two noteworthy changes at State Street. She stated the chairman and CEO of the firm was formerly David Spina, who had worked with the firm for over 30 years, had a heart attack a year and a half ago, and as a result decided to speed up his retirement. She stated Mr. Ron Logue took Mr. Spina's place and had been with State Street for 14 years and was the president and heir apparent. Ms. Jacobs reported a second dramatic change was the untimely death of the head of State Street Global Advisors who died of a heart attack. She stated this position is now being co-chaired by Allen Brown, who has been with State Street for over nine years and has 30 years in the investment world, and Peter Leahy who has been with State Street for 15 years.

Mr. Moore inquired what process did State Street use to fairly allocate. Mr. Blackman responded that as with all agent vendors who focus on ERISA pools, part of the DOL requirement is equitable allocation of the loan opportunities depending upon the portfolio. He indicated the firm uses an algorithm that monitors entitlement points and recalculates on a daily basis by asset class.

Mr. Vazquez inquired how long the firm anticipates the conversion process to take. Ms. Massena responded it would depend on the nature of the portfolio because the firm likes to give at least a couple of months to address contractual issues if any. She stated the firm also likes to meet with the client beforehand to ensure the expectations are laid out very carefully. Ms. Massena expressed, to be on the safe side, the conversion would take approximately two months. Mr. Blackman added, from the lending side, it would depend upon the positions and the liquidity that exists. Ms. Massena pointed out that State Street would pick up all of the Plan's historical returns and market value information in order to incorporate and maintain the history and performance.

The representatives of State Street left the meeting.

Ms. Bernstein (PCA) approached the Board table.

Chairwoman Calvache recognized Ms. Bernstein and requested an overview of the interviews.

Ms. Bernstein indicated PCA put together a thorough review of the three finalists for custody and securities lending in conjunction with staff. She stated a number of recommendations were included and then suggested if the Board was going to make a selection today they consider the first four recommendations. Ms. Bernstein explained the others were corollaries that the Board might want to consider for future agenda items. She explained the first recommendation was the broadening of the services, and the second as the selection of the custody bank. Mr. Vazquez inquired if the services were included in the fee. Ms. Bernstein responded the bids submitted include other services that PCA is recommending to the Board. She stated some of the services are not currently needed; however, the Board would get a better price if they include it in their original bids for the bank instead of a year later. She recommended the Board select the bank and state exactly what services the firm is being hired to perform.

Ms. Bernstein indicated that earlier that morning the City Attorney's Office informed PCA if the Retirement Board wishes to seek a five-year contract, which PCA recommends, they would have to go through the City Council, which is an extremely long, drawn out process. She suggested an alternative to this would be to go with a three-year contract, but include two one-year extensions in the contract. Attorney Wilkinson stated he would have to look into a three-year contract and extensions. Mr. Martinez commented that the extensions would have to go to City Council. Mr. Vazquez recommended the Board follow through with whatever is necessary to get the five-year authority. Attorney Wilkinson expressed that, unfortunately, this is a charter problem and that any contract for more than three years has to go to City Council. Ms. Bhatia reminded the Board that they are currently in an extension with the current custodian. Ms. Calvache inquired when the current extension expires. Ms. Bhatia responded it was a six-month extension from August thru February of 2005. Mr. Vazquez stated he would not recommend holding up the process in order to get the five years. However, allow for it in the contract and limit it to three years until the Board can get the five-year authorization.

Ms. Bernstein continued, stating the fourth recommendation by PCA is to finalize the securities lending guidelines and PCA would work with staff and the new custodian bank on the final revision to submit to the Board. She stated the other three recommendation are proxy voting guidelines, rebalancing, and reviewing the WPERP staff and is something the Board may want to add them as future agenda items

Mr. Moore noted, with respect to proxies and class action filings, there were other outfits out there to perform this, along with the attorney the Board has on retainer. Attorney Wilkinson clarified the interviewees were talking about when there has already been a case filed and they are filing a claim, whereas a law firm provides a much higher lever of service and advises the Board on whether or not a law suit should be filed. Mr. Moore inquired if the custodian banks had this capability. Ms. Bernstein responded the custodian banks provided proxy monitoring services, but there are a number of services out there. She added, in addition to setting the proxy voting guidelines, procedures can be set up also. She informed the Board that this issue did not need to be addressed before picking a custodian.

Mr. Vazquez inquired if PCA and staff's bottom line recommendation on the three firms interviewed is Mellon as custody and securities lending. Ms. Bernstein stated PCA ranked Mellon first and if one combines their capabilities along with the fees, State Street comes in second and BNY third. She stated there was a lot of discussion with staff in making sure the Board could be comfortable with the actual transition given the staffing in the Retirement Office. Ms. Bernstein expressed the transition is a big process and she felt comfortable Mellon could handle it, particularly if the Board gets insurance with whichever company is selected. Mr. Moore pointed out that the recommendation by PCA and staff has centered substantially on the fact there is just a much better and user friendly reporting monitoring capability in Mellon versus BNY. He requested both staff and PCA give an explanation to this. Ms. Bernstein stated that her perspective is that both Mellon and State Street are a step ahead of BNY, who are actively investing in these areas. She stated on a technology perspective, it is the on-line flexibility of accessing systems and their experience with a range of service. Ms. Bhatia informed the Board that the demonstrations given at the site visits, in terms of technology, would be very useful in the complex investment structure the Plan is entering in to. She added the investment guidelines require monitoring on various fronts, and from that point of view, Mellon's demo was above the other two firms.

Mr. Martinez inquired why a three-year contract versus five years. Ms. Bernstein reiterated her previous explanation that the City Attorney's Office informed PCA that any contract longer than three years would have to go before the City Council, which is a very long process. Attorney Wilkinson commented that the other two pension Plans the City Attorney's office advises (LACERS and Fire & Police) have always had no more than a three-year contract, but have regularly renewed those contracts. Mr. Moore inquired, given the fact that the current custodian contract is about to expire, will this create a problem since getting a five year contract processed through the City will not be possible during the timeframe of that expiration. Ms. Bhatia informed the Board that, even though the current contract has been extended six months through February, the conversion process to a new custodian would take approximately two months and the negotiation of a contract would also take some time. Therefore, it was not realistic to expect that the approval of a five-year contract would be attainable before the expiration date of the extended contract. Mr. Martinez expressed the Board would have the same problem with a five year contract if they go back three years from now and try to get a two year extension. Ms. Bhatia explained that in the past, after the three years, the contract is extended for a year so it has not been an issue. Mr. Martinez expressed the reason he feels it is an issue is because the City Council has not been pleased to see extensions on a year-by-year basis. Ms. Bernstein agreed the renewal of contracts are harder to get through the City Council. Mr. Martinez recommended going with a five-year contract and do their best to accommodate all the issues put upon staff and the selected custodian bank. He stated the way to accomplish this is to put the right people in place to make sure it is done properly. Mr. Vazquez suggested the Board make a selection today and have staff submit a timeline as to what needs to be done in order to get the contract finalized and everything in place by February.

Ms. Calvache inquired if there were any insurance issues with any of the candidates. Ms. Bernstein responded that finalists State Street and Mellon have committed to the existing insurance relationships and have met all of the minimum requirements and believes BNY has worked through all of their issues. She then requested Ms. Bhatia to speak to any issues regarding BNY. Ms. Bhatia clarified she would have to speak to Mr. Neaman (risk management) about any existing issues with BNY, if any.

Mr. Vazquez moved the selection of Mellon Financial Corporation as custodian bank in Resolution 05-22. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Mr. Martinez inquired if this was going to be a five-year contract. Mr. Vazquez responded in the affirmative and requested staff submit a report at the next Board meeting as to what is needed in order to have Mellon in place by February. Mr. Moore thanked staff and the consultant for their work.

2. Termination from Monthly Rolls as of August 2004:
Retirement Resolution for September 2004
Termination of Willie Fernandez from August 2004 Permanent Disability Roll - Deceased

Mr. Moore moved adoption of the above item 2 on consent. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

Chairwoman Calvache inquired if there were any public comments. There were none.

3. **Report of Payment Authorizations as of July 2004.**
4. **Notice of Deaths for August 2004.**
5. **Short Term Investments as of August 30, 2004**
6. **Market Value of the Retirement, Death, and Disability Funds as of July 31, 2004**
7. **Equity Summary as of July 31, 2004**

Mr. Moore moved to approve items 3 through 7 to be received and filed. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

8. **Report on Developing a Presentation Video for the Retirement Planning Seminars**

Ms. Bhatia stated at the last Board meeting, staff was requested to find out about the possibility of video taping the retirement planning seminar. She informed the Board that videotaping the seminar was possible and would cost $500.00. She stated the tape could be sent not only to spouses, but to DWP offices in outlying areas. She stated there was an additional $700.00 charge for an additional camera.

Mr. Vazquez moved approval of resolution 05-25. Seconded by Mr. Martinez and carried unanimously after the following vote:

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

9. **Consideration of Retirement Plan Amendment to Provide for Charging the Plan Expenses Against the Trust for Payment of Investment Management Fees Due and Payable Under the Newly Adopted Asset Allocation Structure**

Ms. Bhatia explained item 9 was approved by the Board last year and provides for a Plan amendment that allows the expense of investment fees to be charged against the fund. She stated it also requires a small change in the language in the Plan where the word “investment advisors” was changed to “investment managers”. She stated the item was already approved by the Board of Water and Power Commissioners and has been brought back for ratification purposes.

Mr. Vazquez commented the Board of Water and Power Commissioners approved the Plan change in June of 2003, and part of the resolution is that it be submitted back to the Retirement Board for formal adoption and implementation. Ms. Bhatia informed the Board that, as far as the budget was concerned, the changes had been reflected in the budget presented to the Board in March based on the initial adoption of this Plan amendment. She explained the administrative expenses presented in the budget excluded investment fees as required by this Plan amendment.

Ms. Calvache expressed she did not remember the discussion back then, but did recall herself voting “no”. Ms. Bhatia stated the item came before the Retirement Board a few times initially, but was eventually adopted and sent to the DWP Board of Commissioners.

Mr. Vazquez moved formal adoption and implementation of the authorized Plan changes. Seconded by Mr. Moore and carried unanimously after the following vote:

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

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

Ms. Bhatia introduced item 10 as the RFP for investment consultant. She indicated staff incorporated the changes provided by Mr. Moore and Mr. Vazquez. She stated the RFP was being brought before the Board for approval so staff could move ahead with the process.

Mr. Moore moved approval of proceeding with the RFP for an investment consultant with the correction of the noted typos. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

11. Authority to Purchase Commercial Paper from the List of Approved Issuers (October through December 2004)

Ms. Bhatia explained item 11 as the authority to purchase commercial paper, which is invested by the investment staff. She explained that every three months staff comes before the Board with a list of approved commercial paper issuers who meet the A1 and B1 rating along with a recommendation from the investment managers as to whether any of the issuers have been removed from the rating. She pointed out Chevron Transport and Export Development were removed from the list.

Mr. Vazquez moved approval of Resolution 05-26. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Mr. Martinez inquired if the names removed from the list were due to credit issues. Ms. Bhatia responded it was due to their rating.

12. Appointment of Transition Manager to Sell the Boston Equity Portfolio and Authorization to Fund the International Equity and the Emerging Markets Equity Mandates with the Proceeds from the Transition

Ms. Bhatia noted at the Board meeting of August 18th, the Board selected BNY for the purpose of liquidating the Boston equity portfolio. She further noted the Board also approved the funding of the international equity and emerging markets with the cash proceeds from the liquidation. Ms. Bhatia stated staff wanted to bring the items back to the Board for ratification. She stated the motion was adopted at the last Board meeting.

Mr. Moore moved approval of Resolution 05-27. Seconded by Mr. Martinez and carried unanimously after the following vote:

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

13. Resolution to Adopt Changes to Specific Manager Guidelines for Small Cap Investment Manager as Requested by Earnest Partners and Approved by PCA

Ms. Bhatia explained that in finalizing the contract with Earnest Partners for small cap equity manager, the investment manager requested certain changes in the investment guidelines pertaining to the specific manager guidelines. She stated those guidelines were reviewed by PCA and the changes were highlighted on page 13.4 of the agenda packet.

Mr. Vazquez moved for approval of Resolution 05-28. Seconded by Mr. Moore and carried unanimously after the following vote:

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

14. Authority to Adopt Investment Guidelines for a Commingled Account with T.Rowe Price in Connection with the Emerging Market Mandate and to have them Supersede WPERP's Approved Investment Guidelines and Policies for this Mandate

Ms. Bhatia stated that at the last Board meeting the Board decided to go with a commingled fund for T. Rowe Price and staff is coming back to the Board with the differences in the guidelines. She explained that by adopting a commingled fund there were specific guidelines associated with those, which are different from WPERP's investment guidelines. Ms. Bhatia stated the differences had been reviewed by PCA and a resolution is included in the agenda packet to adopt a commingled fund guideline in order to move ahead with the T. Rowe Price contract.

Mr. Moore moved for approval of Resolution 05-29. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

15. Authority to Adopt Investment Guidelines for a Commingled Account with The Boston Company in Connection with the Emerging Market Mandate and to have them Supersede WPERP's Approved Investment Guidelines and Policies for this Mandate

Ms. Bhatia informed the Board that item 15 was similar to item 14 and there was a resolution included in the Board package to adopt the guidelines. Mr. Martinez inquired if the commingled fund guidelines were more stringent than those in the WPERP. Ms. Bhatia responded that some of the commingled funds were not as stringent. Ms. Bernstein stated that the commingled funds the Board selected basically conform to the Plan's overall investment guidelines

Mr. Vazquez moved for approval of Resolution 05-30. Seconded by Mr. Moore and carried unanimously after the following vote:

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

16. Investment Manager Status Report

Ms. Bhatia explained item 16 as the latest regular investment manager status report. She stated changes had been made from the previous one distributed. Mr. Vazquez inquired about the changes. Ms. Bhatia reported under Active Small Cap, the Bank of New York complied with Worker's Compensation and under Loomis Sayles there was some additional information added to the report. She stated with regard to the Boston Company, she had been informed by Mr. Neaman that compliance to most insurance requirements (other than general liability) were outstanding.

17. Resolution to Approve Transfer of $1.3 billion from Reserve for Investment Gains and Losses to General Reserve

Ms. Bhatia explained that item 17 was in connection with closing the books and preparing the financial statements. She stated Resolution 05-31 authorizes the transfer from investment gains and losses to general reserves in the amount of $1.329 billion. Ms. Bhatia indicated that in accordance with pastpractice the reserve for investment gains and losses will have a balance of approximately $5 million after the transfer to the General Reserve. She explained that this was basically a paper transfer required in connection with the year-end closing of the books.

Mr. Vazquez moved approval of Resolution 05-31. Seconded by Mr. Moore and carried unanimously after the following vote:

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

18. Discussion of PCA's Report on Cash Allocation and Possible Action to Revise Current Cash Allocation to 2%

Ms. Bhatia explained that item 18 concerns changing the allocation to cash from 1% to 2%. Ms. Bernstein stated this issue was brought to PCA by staff when Mr. Rozanski was appointed as the Acting Plan Manager and began reviewing the cash balances. She stated staff's recommendation was that 2% be allocated instead of 1%, in order to have six months to fund benefit payments. Ms. Bernstein reported PCA looked at it from the Plan's perspective and feels that overall this change in allocation would not change the return on a policy basis by more than 10 basis points. She stated PCA recommends a change in the asset allocation structure by taking the extra1% for cash for the time being, out of the alternative investments, which is now 5%. This will bring the allocation to alternative investments down to 4%. Ms. Bernstein added the allocation to alternative investments was something that could be addressed in the future, but since the Plan is going through these transitions, it would make sense to be a little more cautious on the cash side. She stated the current 1% covers almost 3 months worth of future payments.

Mr. Vazquez inquired what the other plans do in terms of cash. Ms. Bernstein responded that 1% is very often what it is managed to but it really depends on contributions. She stated since WPERP is in a period of transition, a little extra cushion may be needed. Mr. Vazquez recommended revising the current cash allocation to 2%, however, did suggest not changing the overall asset allocation. Ms. Bhatia commented that staff did an analysis of cash needs and determined that there was a net cash outflow of $19.5 million, which is why this issue needs to be addressed. She stated once everyone is funded, it will become more critical to maintain the cash needed for operative needs.

Mr. Moore agreed with Mr. Vazquez and recommended passing the resolution, but strike the "whereas" paragraph that talks about moving the alternative investments from 5% to 4% and just leave that unstated until it gets to the point where the monies actually need to be invested and address it at that time. Ms. Bernstein commented that from a quarterly performance recording point of view, there needs to be some kind of asset allocation target. She recommended the Board execute an interim or short-term measure to see where the Department is lining up. Mr. Martinez suggested putting a timetable to bring it back to be effective through six months from now. Mr. Vazquez added, until such time as we consider funding the alternative investments.

Mr. Vazquez recommended the approval of Resolution 05-32 with the noted changes. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Martinez, Vazquez, Moore, and Calvache

Nays: None

Ms. Bhatia clarified, the resolution will not state “six months” but will state, “until such time the alternative investments are funded”.

19. PCA’s Report on Pre-Trade Analysis for High Yield and Small Cap Investments and Possible Action on Transition Recommendation

Ms. Bernstein stated the report included in the agenda packet is the transition manager pre-trade analysis for four managers and pointed out PCA’s recommendations, stating in the small cap arena it is recommended the Board use a transition manager for the two-sided trade and to fill the small cap manager positions. Ms. Bernstein also stated with regards to the high yield mandate, PCA recommends a transition manager is not needed for either side because the legacy portfolio is extremely liquid. She expressed if the Board decides to go with those general recommendations they would have to select a transition manager out of the four in their bench.

Mr. Moore expressed he agreed with PCA’s recommendations. He then inquired, given the potential cost on the buy side in the high yield portfolio, did the transition managers PCA talked to, give a feel they could handle the job for less than what has been estimated on the part of Wells Capital. Ms. Bernstein responded some of the managers did, but there were caveats. She commented there were two transition managers present who could speak to this item and had questions as to how the actual positions would be built.

Mr. Stephen Malinowski of Merrill Lynch approached the podium.

Chairperson Calvache recognized Mr. Malinowski.

Mr. Malinowski stated, in regards to the question on the high yield portfolios, Merrill had performed extensive analysis. He expressed that Merrill feels they could effectively help reduce the transfer cost. **TAPE BECAME INAUDIBLE AT THIS POINT. . . . .** Mr. Malinowski returned to the audience.

Mr. David Malecek of BNY Brokerage approached the podium.

Chairperson Calvache recognized Mr. Malecek.

Mr. Malecek stated different scenarios were run for PCA and reflected that BNY does have the high yield . . . **. INAUDIBLE** . . . . Mr. Malecek indicated that BNY has traded quite a few high yield portfolios. Mr. Moore inquired, with regards to the high yield buy side, did BNY submit estimates to PCA for what the total transaction cost would be. Ms. Bernstein responded BNY did provide those estimates and came in with a lower estimate, but it was not included in the agenda packet. Mr. Malecek returned to the audience.

Mr. Daniel Morgan of State Street Global Markets approached the podium.

Chairperson Calvache recognized Mr. Morgan.

Mr. Vazquez inquired for clarification, if PCA was recommending the transition managers be retained to liquidate the securities to fund a portion of the small cap managers. Ms. Bernstein responded in the affirmative, adding it would be two sided on the small cap to both liquidate the existing portfolio and fund the small cap managers. Mr. Vazquez inquired if the manager would be liquidating the Boston remnant portfolio portion and if the passive equity managers would liquidate the balance to fund that as well as the balance to fund the high yield. Ms. Bernstein responded she would recommend the transition manager handle the transition completely from the legacy portfolio and the portion that has to come out of passive equity. She stated this would mean building the positions for each of the small cap managers. Mr. Vazquez inquired how does the transition manager choose what should come out of the passive equity managers' securities and if it would be better for them to choose or should the passive equity managers choose. Ms. Bernstein responded either one would be fine and the Board would get detailed experience. However, typically in transitions one will work with both the legacy portfolios to identify securities that should be liquidated and then the transition manager takes the sell list. She added there is also a buy list from the small cap managers.

Mr. Malecek approached the podium.

Chairwoman Calvache recognized Mr. Malecek.

Mr. Malecek (BNY) clarified the number of transitions for BNY in 2003 was 29 for small cap, which was one sided at $17 billion, not $8.5 billion. Mr. Malecek returned to the audience.

Mr. Moore inquired if the selection of the transition manager was another item on the agenda, or was it part of the Board's action under item 19. Ms. Bhatia responded in item 22 PCA has provided names for selection. Ms. Bernstein clarified that item 22 is just recommending to the Board that they sign generic contracts with their four benches and if they want to move on selection of the transition managers for small cap it would be under item 19.

Mr. Vazquez inquired if PCA was making a recommendation. Ms. Bernstein responded that in the write up included in the agenda packet, PCA did not make a recommendation. However, if the Board looks at the summary of each transition manager, there are pre-trade estimates. She reported that Frank Russell came in quite high on their pre-trade at close to 40 basis points of total cost, Merrill and State Street were both at 14, and BNY came in at 16.3. Ms. Bernstein pointed out a transaction history of each of the managers was also provided for the Board to give them a little additional information on the expertise of each bank in this particular area of transition. She added it was the Board's choice. She noted BNY was a little newer to the small cap area, while Merrill and State Street were very experienced.

Mr. Moore inquired if the banks would be acting as fiduciaries. Ms. Bernstein responded that each of the bids would be under a fiduciary role for WPERP. He commented the key thing to look at would be the commission cost and BNY is slightly lower than both Merrill and State Street. However, there is the relative experience of BNY versus Merrill Lynch and State Street with small cap. Ms. Bernstein expressed, from her perspective, the other banks have a lot more experience, which does matter. She indicated that, in the future, she would provide the Board with an educational background with a more detailed analysis of the estimates. Ms. Bernstein noted BNY came in at one basis point on the buy side in the small cap and a half a basis point on the sell side of the legacy portfolios. She stated both Merrill Lynch and State Street were at one basis point per share. She added any of the three could adequately perform the transition.

Mr. Moore pointed out that in the past, one of the issues has been whether or not Merrill Lynch would act as a principal in any of the transactions. Ms. Bernstein responded they would only act as a fiduciary.

Mr. Vazquez referred to page 19 of the agenda packet and inquired if any of the numbers in Figure 1 were inconsistent.

Mr. Malecek approached the podium.

Chairperson Calvache recognized Mr. Malecek.

Mr. Malecek clarified BNY's numbers reported by PCA were 29 "pure" small cap transitions. Mr. Vazquez inquired what the number would be if mid caps were added. Mr. Malecek responded it would probably be another 50. He added the firm did $350 million in small cap transitions last month with a large corporation, their performance was excellent, and the firm is a major player in the over the counter small cap market. He pointed out BNY's expertise in working on the estimates and working with Mr. Avery on the first two trades gives them experience with the Department. Mr. Malecek also stated he did not know if the other two providers understand the insurance issues of the Board, while BNY is ready to go and can have the contract signed in a day. Ms. Bhatia stated that insurance is not an issue with the transition agreements. Mr. Malacek returned to the audience.

Mr. Vazquez inquired if the representatives of Merrill Lynch and State Street had anything else to add as to why they should be the firm selected.

Mr. Stephen Malinowski (Merrill Lynch) approached the podium.

Chairperson Calvache recognized Mr. Malinowski.

Mr. Malinowski stated that Merrill's experience in this asset class is unique. He stated it is a much more difficult transition since small cap securities are less liquid and there is more market impact. He stated in order to illustrate their experience level, as well as their cost level, the firm would be willing to reduce their commission. Mr. Malinowski also pointed out that Merrill is a current contractual manager to the Plan. He stated, from a trading perspective, they are absolutely and consistently acting in a fiduciary capacity. Mr. Malinowski returned to the audience.

Mr. Morgan (State Street) approached the podium.

Chairperson Calvache recognized Mr. Morgan.

Mr. Morgan reported that Sate Street ranks well with their competitors for the small cap securities. He stated as far as knowing how to trade, State Street brings an excellent set of criteria to the table with no particular manager involved. Mr. Morgan expressed when it comes down to actual commissions, all four firms are relatively in the same ballpark and State Street would be willing to do the exact same thing. He stated from their analysis, one of the smallest components of that actual cost is commission cost and the rest comes down to controlling risk and the ability to cross stock. Mr. Morgan reported State Street has $1.1 trillion under management for other transition clients, last year the firm completed $275 billion worth of transition business, and $300 billion this year. He indicated their contract was already on file with PCA. Mr. Morgan returned to the audience. Ms. Bhatia asked for clarification in connection wit Ms. Bernstein's recommendation concerning the small cap transition, specifically would the transition manager retained for the sale of the remnant portfolio also handle the buy side of the transition.

Mr. Moore stated he could argue in favor of Merrill Lynch based on their experience, their suggestion of lowering the commission, and the fact that the firm could move quickly based on their current relationship with the Department. He stated, with regards to BNY, the money is going to one of their portfolios; therefore, he is relatively comfortable with them as well. Mr. Moore expressed, outside of their commission being slightly higher, he would be hesitant going with State Street due to the fact they have no relationship with the Department. Therefore, there might be hurdles that the Board does not see. He stated in order to get the money invested he would rather have some certainty that things could move quickly.

Ms. Calvache expressed she was comfortable with BNY.

Mr. Martinez stated his thinking in listening to the discussion, aside from the fee issue, is experience. Therefore, he would be comfortable with Merrill Lynch.

Mr. Martinez motioned the selection of Merrill Lynch as the small cap transition manager. Seconded by Mr. Moore and failed after the following vote:

Ayes: Martinez, Vazquez, and Moore.
Nays: Calvache

Mr. Vazquez clarified that four votes were needed to pass a motion, therefore the item would have to be deferred. Mr. Vazquez inquired if deferring the item would hold up the funding of the mandates and how close was staff in the contracting process and to funding the contracts. Ms. Bhatia responded that the BNY contract was signed and Earnest Partner's contract is ready for signature.

Ms. Bhatia stated that after the transition manager was hired there was a turnaround time where the transition agreement needed to be finalized. However, Ms. Bhatia expressed staff could work on other contracts and if the Board wishes, return with this item at the next meeting.

Mr. Vazquez stated his problem with that is if the mandates were ready to be funded and the Board is not doing it in a timely manner, then the Board is not doing their job.

Mr. Moore agreed with Mr. Vazquez and indicated he could go with either BNY or Merrill Lynch. He stated since Ms. Calvache felt so strongly about BNY he could go with BNY also in order to move things along.

Mr. Vazquez inquired what Ms. Calvache's rationale was for choosing BNY. Ms. Calvache stated she chose BNY because the Retirement Board has previously done business with them and they have done an excellent job. Mr. Vazquez commented that the Board has also done business with Merrill Lynch. Ms. Calvache stated after listening to their presentation and reviewing PCA's report, she feels more comfortable with BNY.

Mr. Martinez expressed that being the newest Board member he would have to rely on the analysis by PCA and staff, and it is clear on the information submitted that there seems to be a lot more experience at Merrill Lynch than with BNY. **Mr. Malinowski responded from the audience but it was inaudible.** Mr. Martinez responded he did not think the Board could consider fees as part of their decision. Attorney Wilkinson inquired if fees were a part of the presentation. Ms. Bernstein stated the estimates that were provided include the bids with fees proposed from each bank so anything a representative states today is not incorporated in PCA's report to the Board.

Ms. Calvache inquired how big of an impact would there be if item 19 were deferred until the next Board meeting. Mr. Moore commented that the Board had already selected BNY because they felt they had capability with respect to the management of small cap, and half of the portfolio ultimately goes to them anyway. He expressed his concern that things have already been moving so slowly in making the transition and he did not want it held up any longer unless there were compelling reasons to do so. Mr. Moore stated Merrill Lynch may have more background in making major transitions, but BNY was no slouch in the overall field. Mr. Vazquez agreed with Ms. Bernstein's statement that any one of the four firms could do the transition and perform well.

Mr. Moore moved the selection of BNY as small cap transition manager. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

Mr. Vazquez expressed, for future transitions that are being recommended, he would like to get the transition manger selection well in advance of the need to fund.

20. PCA's Report on Transition Costs in Connection with Moving Passive

Domestic Portfolio from Northern Trust to Merrill Lynch

Ms. Bhatia stated, as required by the Board, staff sent a letter out to each of the managers (Merrill Lynch and Northern Trust) inquiring about their willingness to comply with the insurance provisions. She stated the Board also requested PCA provide cost estimates in connection with a possible option of combining the two passive accounts, and PCA's report is included in the agenda packet. Ms. Bhatia stated Merrill Lynch sent an email stating they would not be able to combine the two accounts. She stated staff has not yet received a response from Northern Trust, but will give them until September 17, 2004.

Item 21 was taken out of order as the next Board agenda item. See page 24.

22. PCA's Recommendation on Transition Manager Generic Contract Agreements

Ms. Bernstein stated, at the last Board meeting, PCA recommended that the Plan have a bench of four transition managers and that generic contracts be in place for each manager so that any kind of contracting process with either could go much more quickly. She explained this would avoid the situation of an additional lag to select a different transition manager than the Board has already dealt with. She indicated PCA, at the request of the Board, asked each of the four managers to submit their standard generic contracts.

Mr. Vazquez moved that the Retirement Office staff obtain generic contract agreements from the four possible transition managers. Seconded by Mr. Moore and carried unanimously after the following vote:

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

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

Ms. Bhatia stated item 23 was a report requested by the Board and is informational only. Mr. Vazquez commented that the report puts the TCW trade to rest since it states there will be no recourse.

21. PCA's Quarterly Performance Review as of June 30, 2004

The quarterly performance review was deferred until the next Board meeting.

24. Retirement Plan Manager's Comments.

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

b) General Items:

25. Future agenda items.

The meeting was adjourned at 1:32 pm.

JAVIER ROMERO President	Robert Rozanski Secretary
IRENE GUDINO Recording Secretary	Sangeeta Bhatia Secretary