

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

MINUTES – January 19, 2005

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member

Absent:

Gerard McCallum II	Commissioner
Ronald Deaton	General Manager

Others Present:

Robert Rozanski	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 10:03 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Mr. Rozanski stated there were no public comments.

1. Interview and Possible Selection of an Investment Consultant Firm (from those responding to the Plan's Request for Proposal)

a. Callan Associates

Mr. James A. Callahan, CFA, Senior Vice President; Mr. P. Mackenzie Hurd, Consultant; and Ms. Janet C. Becker-Wold, Senior Vice President of Callan Associates approached the table.

President Romero acknowledged the representatives from Callan Associates.

Mr. Callahan introduced himself and his colleagues and gave a brief description of their duties. He indicated Callan differentiates itself from other firms by the way its team of

consultants services each of the firm's relationships with its clients. He expressed the firm feels it is very important to have continuity in each of the firms relationship with clients and that if one person is not available for a meeting or phone call, a backup would be accessible. Mr. Vazquez noted that Ms. Becker-Wold services seven existing client relationships. Mr. Callahan clarified that Ms. Becker-Wold has five client relationships and Mr. Hurd has seven. However, each still has the capacity to take on another time-consuming relationship.

Mr. Callahan presented a brief overview of Callan's history, stating the firm has been in business for over 30 years and has approximately 300 fund sponsor clients representing over \$900 billion in assets. He added that about 40% of the firm's business is public funds oriented, which has historically been their biggest focus. He reported Callan is headquartered in San Francisco and has regional offices in Denver, Chicago, New York and Atlanta. However, all of the resources that the Water and Power Retirement Plan (WPERP) would tap into are located in the San Francisco office.

Mr. Moore noted the firm has a total of 171 total employees and 28 general consultants. He then inquired how one would figure out how many plans are typically handled by the firm's consultants. Mr. Callahan responded the simple way would be to take 286, which is the total number of clients, and divide that by 28. He stated, on average it would be 10 to 1. Mr. Callahan pointed out that every client relationship is different with regards to the amount of time and travel needed. Consequently, there are some consultants who work with 6 or 7 clients, while others work with maybe 13 depending on the requirements of the client.

Mr. Callahan continued by stating the average general consultant at Callan has over 20 years of experience in consulting in the investment industry. He added the firm is 100% employee owned. Mr. Callan listed the firm's core competencies as strategic planning, plan implementation, monitoring and evaluation, and ongoing education. He pointed out there were four distinct and separate consulting groups that take advantage of those core competencies. Mr. Callan stated the fund sponsor-consulting group is the biggest part of Callan's business, where 60% of their revenues is derived.

Mr. Vazquez inquired what Callan does for investment managers. Mr. Callahan responded the investment managers are mainly buying data from Callan. He explained the firm maintains their own database of manager and fund sponsor information and also the managers sometimes request Callan to do broader strategic consulting projects.

Ms. Becker-Wold pointed out there were two components to Callan's investment philosophy and process, their belief in the benefit of adherence to a discipline process, and their dedicated significant resources. She explained Callan begins with strategic planning, which they believe is the cornerstone of the investment program and the firm has a dedicated group assigned to that area. Ms. Becker-Wold stated this group handles asset liability studies, manager structure and investment policy statements. She emphasized, with regards to monitoring and evaluation, it is important to continuously monitor the managers that are in place to ensure that part of the program meets the original objectives that were set up.

President Romero inquired if Callan works with a custodian bank or if they depend on a custodian's report. Ms. Becker-Wold responded the firm takes a live feed from the custodian and transfers the information into their database in order to generate the report in-house. Mr. Hurd commented the firm runs its own audits as well, which they check against the custodian data to ensure there are no glitches or errors.

Ms. Becker-Wold reported Callan has a service called "Callan Insights", which is distributed through email providing news and developments on investment manager organizations. She added the firm has spent significant resources in their continuing education program. Ms. Becker-Wold stated the firm's adherence to their investment management process gives the client a well-documented plan, is defensible to the client's constituents, beneficiaries and appropriate regulators, and provides for ongoing monitoring and continuous improvement. Mr. Vazquez inquired if the continuing education was part of the fee structure submitted. Ms. Becker-Wold responded in the affirmative.

Ms. Becker-Wold outlined Callan's oversight committee, which consists of a consulting team, client policy review committee, and manager search committee. She stated the consulting team consists of five professionals who are responsible for developing the firm's capital market's projections for their asset liability studies, manager structure analysis for writing a quarterly capital market review distributed to clients, and performing specialized research projects for their clients.

Mr. Hurd summarized Callan's plan implementation, which focuses on manager research. He stated the exceptional depth of resource the firm has in their manager research shows through in the number of visits they make. He expressed this gives them tremendous coverage across all asset classes. Mr. Hurd reported, with regards to the manager search process, all of the searches that go through on public and private markets come through the firm's manager search committee, ensuring quality control.

Mr. Hurd briefly described Callan's on-going evaluation. He emphasized the key points are that dedicated professionals maintain their proprietary database, and reports are customized to meet the clients needs. Mr. Hurd explained how important it was for the Retirement Board, with their fiduciary duty, to stay current with private equity, real estate, and hedge funds -- areas that are requiring additional research and knowledge. He stated Callan offers fiduciary seminars, conferences and workshops that continuously address pertinent issues in the industry to assist the Board in going forward.

Ms. Becker-Wold concluded that Callan is uniquely positioned by their organizational structure, being employee-owned, being that consulting is their only line of business and having dedicated research professionals to provide a high level of service to their clients.

President Romero inquired if Callan's fee schedule was in the information submitted. Ms. Becker-Wold responded that the fee schedule was given to Mr. Rody Abarro in the Retirement Office, but she had a copy with her. Mr. Rozanski clarified that Callan's fee

schedule was on page 1.6 of the Board agenda packet. Mr. Vazquez pointed out, with regards to the fee schedule, Callan was the only firm out of the three that broke down their ability to monitor performance in hedge funds. He inquired why this was listed separately. Ms. Becker-Wold clarified it was not the monitoring of the hedge fund, but the hiring of direct funds. She added the firm is more than willing to do the monitoring. Ms. Becker-Wold expressed Callan firmly believes hedge fund investments are very complicated and high risk in terms of their exposure for funds if anything goes wrong, and that the level of due diligence required is extreme. She added with regards to Callan's experience in dealing with funds, the firm has not seen many successful direct hedge fund programs. She explained that due diligence is most appropriately done by those who deal with hedge funds everyday and know how to really get "under the hood" in terms of the operational issues which can be very substantial. Mr. Vazquez inquired if most of Callan's clients have direct investments in hedge funds. Mr. Callahan responded there are some clients that have direct investment in hedge funds. He stated the firm has the capability of taking a look at multi-strategy oriented hedge funds that are not specific to a given area, but ones that might merit three or four different types of strategies. Mr. Callahan explained hedge funds were philosophical and strategic, and that a successful hedge fund program that is diversified with good oversight calls for an enormous amount of resources to be effectively accomplished. He stated Callan does not feel they have those resources. However, the fund-to-fund world provides a solution such that these firms are staffed very deeply with experienced employees capable of providing this resource. Ms. Becker-Wold commented that direct programs tend to put a lot of pressure on staff because the fiduciary responsibility is not relinquished under a direct program and many plans have found this burden of due diligence on an ongoing basis to be fairly substantial on a direct program. Mr. Vazquez inquired if the Board did not choose a direct investment basis would this fee be incurred. Ms. Becker-Wold responded in the negative, adding this is why it was listed as a separate line item.

Mr. Moore requested the representative of Callan to speak a little more on the capabilities of the firm in the real estate, alternative investments, and hedge fund areas. He noted that on page seven of Callan's presentation booklet there is a list of the firm's specialists in those fields, and inquired if those were the key people in each of those fields. Ms. Becker-Wold responded the firm's three real estate specialists were Jamie Shen, Mia Dennis and Matt Costello, who are all based in the San Francisco office. She stated the firm has a lot of experience putting together real estate programs and she personally has worked with the state of Hawaii on their real estate program. She added the firm performs strategic planning, searches, and monitoring. Mr. Hurd reported that over the last 5 years Callan has done approximately 50 searches within the real estate area and placed over \$5 billion. Ms. Becker-Wold added this experience has been in both separate and commingled pools. Mr. Moore inquired if the employees listed work exclusively in each of the areas. Ms. Becker-Wold responded in the affirmative, stating those particular employees have no client relationships and this was their only responsibility. Mr. Vazquez inquired if the employees were searching for real estate advisors or real estate properties. Ms. Becker-Wold responded their search is for real estate advisors. She explained that the firm does not act as the fiduciary for direct real estate, but finds advisors to act on the client's behalf in finding direct real estate.

President Romero inquired if the fee structure Callan submitted was negotiable. Ms. Becker-Wold responded the fees were fairly fixed with the exception of the line item for hedge funds.

President Romero noted that an issue of community responsibility that has come before the Board in the past few years, and inquired what Callan has done for the community in terms of minority and women-owned businesses, and minority college students. Mr. Callahan responded Callan does employ minority and women owned businesses in several areas and he would get this information to the Board. He indicated Callan has put together days where their employees have gone out into the community for Homes For Habitat. Ms. Becker-Wold added, in terms of the minority effort, the employees individually support the institute for fiduciary education.

President Romero thanked Callan Associates for their presentation. The representatives of Callan Associates thanked the Board and left.

b. Pension Consulting Alliance

Mr. Neil Rue, CFA, Principal; Ms. Sarah Bernstein, Principal; Ms. Pamela Alsterlind, Principal; and Mr. Tad Ferguson, Vice President, of Pension Consulting Alliance (PCA) approached the table.

President Romero acknowledged the representatives from Pension Consulting Alliance.

Mr. Rue introduced the representatives of PCA and described their responsibilities within the firm. He then began reviewing WPERP accomplishments from the years 2001 to 2004, pointing out there has been significant changes over the last three years. He expressed the overwhelming bulk of the change has been good for the fund. Mr. Rue stated from an investment perspective everything that existed in the WPERP three years ago has been replaced, such as: 1) changes in Plan policies and guidelines, 2) the gain of access to a broad array of investments firms providing the Plan with leading edge investment expertise, 3) diversification of the portfolio into new asset classes and new segments within particular asset classes, and 4) the insertion of a whole new infrastructure into the fund with the new custodian bank Mellon Financial. He recognized the changes started with the Retirement Board's decision to go in a new direction to modernize the investment function of the fund before PCA was even hired.

Mr. Rue stated that over the course of the three years he has done the bulk of the work, has been fully committed, and has had passion in making sure all the changes were successful. He expressed that the PCA team has never worked harder for a single client than they have for WPERP over the last three years. Mr. Rue stated, given the firm has invested a lot personally into WPERP, they would like the opportunity to continue the relationship due to the remaining tasks they would like to take to completion. He further stated that WPERP has been a top priority client to PCA and will remain so because there is a lot of work that still needs to be done.

Ms. Bernstein explained one of the reasons she joined PCA was due to the references she received characterizing it as a high quality ethical firm with no conflicts of interest, in

terms of the issues other consulting firms have with retirement plans. She stated, as a local employee, she is directly able to attend all of the Board meetings, and meet with staff and/or individual Board members to assist in education. Ms. Bernstein reported PCA's core business is serving primarily large public sector pension plans. She added that though the Board has not accessed them up to this point, PCA has historically been very strong across multi-disciplines and real estate investments, with the highest group of multi-disciplinary practices within the consulting community.

Ms. Bernstein outlined PCA's attributes as: a unique network of large scale public pension funds, deep senior consulting teams with a local and West Coast presence, several multi-discipline consulting relationships, a single revenue source of business, and individual customized manager searches. She also reported PCA has been ranked in the top five by Pension and Investments, and rated highly on responsiveness and advocacy measures. Ms. Bernstein expressed, in her personal opinion, the upcoming years will be moving into a tough economic environment, and every single Board will have to concentrate heavily on ensuring they are doing their best in preserving and adding growth to the assets of their pension plans. She added, in that context, high quality and careful investment consulting will be a benefit.

Ms. Bernstein introduced Mr. Fergusson stating he has been with PCA for almost nine years and is the key person on a day-to-day knowledge of the private equity and all the alternative investment practices and policies.

Mr. Fergusson began with a brief overview of PCA's alternative investments practice, stating PCA provides a full spectrum of private equity consulting services through a variety of formats and ranges of client sizes. He listed the type of services included in these relationships, are: investment policy and guideline development, the handling of strategic investment plans, partnership selection and due diligence, terms negotiation, manager monitoring, and performance reporting. He added PCA has provided these services both on retainer and on a project basis to large pension plans, such as California Public Employee's Retirement System (CALPERS) and California State Teachers' Retirement System (CSTRS). Mr. Fergusson explained how this gives the firm a very unique insight into what some of the largest private equity investors in the country are doing. He stated PCA also has relationships with mid-sized clients, such as Los Angeles City Employee Retirement System (LACERS) and Los Angeles Police and Fire, giving them insight into the local activities.

Mr. Fergusson reported that every member of the team is very capable and experienced in alternative investments. He stated the team also has a significant track record of due diligence, and in performing these activities has recommended approximately \$1.5 billion in commitments in more than 70 partnerships. Mr. Fergusson stated PCA has developed several absolute return programs with assets totaling approximately \$300 million. He indicated that if PCA were fortunate enough to be rehired as the Plan's consultant, the firm would assist the Board in determining the risk and return objectives, target any special needs and concerns, and develop a program to customize them.

Ms. Alsterlind indicated she was located in San Francisco and manages the Real Estate practice with Nori Lietz, who is the founder of the real estate practice and co-founder of

PCA. She stated the real estate program has a very large client base and has approximately \$70 billion in assets under management. Ms. Alsterlind reported PCA has a small number of real estate clients with a ratio of 1.5:1, which is the lowest in real estate. She indicated where PCA has a large involvement and strategic role, their clients have significantly outperformed the NAREIT benchmark, and currently their average outperformance is 600 basis points. She added PCA's real estate practice staff have backgrounds in construction, finance and law; and are able to apply this experience in the real estate discipline.

Ms. Alsterlind indicated, in terms of their experience in core, value added, and opportunistic styles of investing, PCA previously discussed with the Board members the risk and return spectrum back in the fall of 2004. She stated PCA has been very focused on the opportunistic area and is recognized for their expertise. She added the firm has also performed an annual survey of the funds and are able to assist their clients pick the top four managers in that area.

Mr. Rue proposed PCA's game plan for the future of the WPERP, which includes the monitoring of the activities and results already in place, then refining the existing policies and bringing them up to best practices. He reported that by the end of the contract period, under the next tenure, everything would be in place. Mr. Rue expressed he would like to be part of this phase because it would be a legacy of what was created.

Ms. Bernstein expressed that PCA has a personal, as well as an economical, stake in the WPERP. She stated the firm has implemented a profit sharing plan, therefore there is a direct relationship in staff's ability to create and maintain clients and build successful relationships. Ms. Bernstein noted the Board is already familiar with PCA's general consulting process and has had some exposure to the firm's real estate and alternatives services, even though they have not utilized them yet. She stated there were a number of issues that have risen over time such as staffing issues, governance policies, and a number of general areas that are still on the agenda for the Board to deliberate and decide on. She expressed PCA feels they can add value and be of service in these areas.

Mr. Vazquez noted that the Board informed PCA they would be investing approximately 2% of the total portfolio in hedge funds, and 70% of the hedge fund through direct investments. He then inquired what the first step would be to get the Plan there. Mr. Fergusson responded the first step in these asset classes would be the development of an investment policy. He stated there would be a joint education and discussion to 1) determine the risk and return characteristics, and 2) ensure the Board is aware of the various risks associated with the different vehicles and approaches. Mr. Fergusson indicated most of PCA's clients today have been more comfortable with the hedge fund applied approach, especially upon initial exposure. Mr. Vazquez inquired about the identification of specific funds to invest in. Mr. Fergusson responded that PCA has access to some traditional databases that they can perform screening on. He stated they also maintain an internal database that tracks more qualitative type of information. He added, given this space, PCA feels it is very important that a lot of managers do not report two traditional databases in this space. Mr. Fergusson explained that a growing

and expanding portion of PCA's business is to maintain that database; and historically, it has focused on the fund-to-fund space. He added this also gives PCA great insight into underlying managers, but it has not historically been a part of PCA's practice. Mr. Vazquez inquired if this would be part of PCA's engagement with the Board. Mr. Fergusson responded PCA could have a caveat and work with the Board to implement this if they so desired. He explained that the hedge fund space is just now becoming an institutional marketplace, and the coverage of individual hedge funds to identify and cover these managers is a very difficult task. However, PCA can conduct the due diligence and monitoring of these investments. He further explained it would be very difficult to have absolute coverage of every direct individual hedge fund manager and PCA does not currently have that expertise. Ms. Alsterlind commented PCA's practice in this field is significantly enhanced by their relationships with the other large public pension funds that are actively involved in these fields, but it is an additional qualitative level of knowledge, networking, and relationships. She stated if the Board was to request an educational training on hedge fund as a group, and decide to stick with the percentages that were laid out in this particular RFP, PCA would emphasize hedge fund rather than individual funds. However, this would be the Board's decision. She indicated if the Board decides they want to have some direct exposure to individual funds, PCA could perform this.

Mr. Moore referred to PCA's organizational chart and noted there was a fairly low consultant to client ratio and inquired about the firm's consultant to client ratio. Ms. Alsterlind responded, excluding real estate, the practice and general consulting side is no more than seven lead relationships for every lead. Mr. Moore inquired how many clients did each of the representatives, present at the Board meeting, currently handle. Mr. Rue responded he has six lead relationships and Ms. Alsterlind stated she has two.

Mr. Moore noted the chart reflects a very large percentage of PCA's business on the real estate side, and inquired what was the percentage of revenues. Mr. Rue responded it is more than half of PCA's revenue.

Mr. Moore noted under PCA's organizational chart a number of the strategics appear to have changed since the last RFP was submitted. He requested an explanation as to why this was so. Mr. Rue responded that a couple of the prior vendors listed were general marketplace vendors that came to PCA early on in their business and some of the relationships are no longer strategic because those firms are now selling to everyone. He stated that even though PCA has aided these companies in their development and given them strategic advice, they are not fully utilizing PCA.

President Romero asked Plan staff what the difference is between total fee and bundle fee. Mr. Rozanski responded there were separate line items that were provided for each aspect of the consulting; consequently, the bundled fee represents all of the services with a break in the total cost. Mr. Rue pointed out that PCA offered a 5% discount on their bundled fees. President Romero inquired if PCA's fees were negotiable. Ms. Bernstein responded the Board requested the best and final offer, however PCA submitted a competitive bid that is already discounted. She emphasized DWP's business was important to PCA and the firm would be willing to negotiate a little more.

President Romero inquired of PCA what the firm would do to avoid requesting additional fees if more work was required of the consultants due to, for instance, the Board getting involved with fund-to-fund type deals in real estate. He further inquired if PCA could assure the Board this can be prevented regardless of what the Retirement Board decides they want to do. Ms. Bernstein responded PCA has submitted a serious bid and discount, and gives high quality service to the relationship. Mr. Rue commented, if everything is going to be held under retainer, the Board would have to give PCA room to operate in that way, and it is important that when special assignments come up that the firm is not jammed on their fees. President Romero pointed out that PCA is well aware of the Retirement Board's needs; therefore, it would not be fair for the firm to come back at a later date and request an increase in fees. Ms. Bernstein responded the fees submitted were developed with the Retirement Board's needs in mind. President Romero inquired if PCA was stating they would not request an increase in their fees. Ms. Bernstein responded in the affirmative. However, she could not legally say yes for sure if there were a dramatic change to the expectations set forth in the RFP. She stated PCA factored in and thought about everything including giving special sessions on governance and the potential differences in mix of whether the Board decides to do more private equity or hedge funds, or more hedge fund to funds versus direct ones.

President Romero inquired if PCA had any involvement within the community, specifically Los Angeles and MBE/WBE. Mr. Rue responded that PCA is technically a woman-owned firm (49% owned by Allan Emkin & 51% owned by Nori Gerardo Lietz). He stated the real estate side of PCA is heavily weighted toward the female gender. Mr. Rue also indicated PCA meets qualifications in terms of MBE/WBE requirements.

Mr. Moore inquired what assurances does the Retirement Board have that the key people PCA is committing to the WPERP will remain for the duration of the contract. Ms. Bernstein responded she was 100% sure she would be remaining. Ms. Alsterlind responded the team was happy with their jobs and had no reason to leave. Mr. Rue stated the four of them would be the Retirement Board's team of consultants, they were all from the West Coast, and it is an ideal relationship. Ms. Bernstein pointed out there has not been a lot of turnover at PCA, and no one on the general consulting side has left the firm after being hired.

President Romero thanked Pension Consulting Alliance for their presentation. The representatives of Pension Consulting Alliance thanked the Board and left.

c. New England Pension Consultants

Messrs. Allan Martin, Senior Consultant and Richard Charlton, Chairman & CEO of New England Pension Consultants approached the table.

President Romero recognized the representatives from New England Pension Consultants.

Mr. Martin introduced Mr. Charlton and himself, indicating he would be the lead consultant to the Retirement Board if New England Pension Consultants (NEPC) were selected.

Mr. Charlton began to describe how NEPC differentiates itself from other firms. He reported they were the only consulting firm in the industry that has a documented record evidencing an ability to add value. He stated it is a fairly unprecedented record of the entire history of the firm. Mr. Charlton reported NEPC is not conflicted in any way and 100% of their revenue is derived from a division of investment consulting services. He emphasized the fact that NEPC receives no revenue from money managers or brokers and that only two of the firms being interviewed by the Board today can make this same statement. He alleged the third firm receives more compensation from the managers in the Board's employment than the Board will be paying the consultant. Mr. Charlton expressed NEPC represents the industry's most capable, professional, credentialed, and experienced staff. He stated the firm has a higher percentage of chartered financial analysts, and already has one chartered alternative investment specialist. He explained how the firm's technology sets them apart because if one were to put the technology of their two competitive firms together it would pale in comparison to what NEPC offers. Mr. Charlton stated the firm's universe is the deepest and their ability to go down to literally 1,200 managers and get security level detail really gives them a huge advantage when dealing with the investment managers at the interface. He reported that the firm is national in scope and global in perspective with 220+ clients and assets in excess of \$185 billion. He indicated no firm in the industry has received client ratings as strong as NEPC over the last five years based on annual ranking surveys. He added most of their new business opportunities come from client referrals. Mr. Charlton stated the firm is well respected in this era of heightened corporate governance with the SEC investigation, and show increased sensitivity as to how they conduct their business and who their ultimate master is. He expressed it was NEPC's feeling that their ultimate master is the client, which is where 100% of their revenue comes from.

Mr. Charlton briefly outlined NEPC's client base, stating it was well diversified and gives the firm the intellectual satisfaction of dealing with a very broad cross section of clients, it keeps the firm on the cutting edge of new technology with endowments, and improves their performance across the board. He stated NEPC has been able to deliver good performance over a variety of different markets, over a variety of different time periods, and a variety of different economic environments. Mr. Charlton expressed that higher compensation per unit of risk is as important to the firm as simply good returns. Therefore, they have developed every single plan structure for every single client based on the liabilities of that client. As a result, their clients have been paid well for the risk they have taken. Mr. Charlton reported that in 16 out of the past 19 years of their existence, their clients have outperformed the national average with average or above-average risk adjusted returns over all of those longer-term time periods.

Mr. Charlton indicated the proposed consulting team would be led by Mr. Martin, who is a partner in the firm with 36 years of investment and consulting experience. He stated Mr. John Elliot would act as the other half of the team that heads up the Las Vegas office.

Mr. Martin stated, in terms of NEPC's service philosophy, the consultant reports to the Board and takes their direction from them. However, if the Board does not understand an issue, or the staff is not prepared to implement the results, one does not get the desired result. He stated NEPC is committed to providing whatever it takes to ensure all of the pieces work. Mr. Martin expressed he has committed to Mr. Charlton and the firm and he would only take six relationships in order to give each client the time needed. He pointed out that the issues are not just investment related, but also management issues, the role of staff, the delegation of authority, and the education of staff. He added although Board members are smart and effective people, sometimes they do not know the investment language and are embarrassed or intimidated to ask questions. Therefore, he puts together programs, wherein he meets with all of the Board members to explain the different important related concepts.

Mr. Martin expressed that NEPC does not believe that with a 55% equity commitment and a 45% bond commitment one can earn the kind of returns that will extinguish the liabilities through time. Consequently, the firm has been very active in diversifying asset classes. He reported the firm is experienced in the custody business, securities lending, transition management, and commission recapture. Mr. Martin expressed that NEPC believes that the effective management of a client's fund not only involves investment knowledge, but also management knowledge. He pointed out this ensures the policies are well understood and implemented, staff understands what the Board is trying to accomplish, and everyone works together to make sure the targeted result is achieved.

Mr. Martin described NEPC's client-driven manager search process. He expressed the firm believes that the most important aspect of investment manager search is objectivity and they fully support the idea of publicly advertised searches. He referred to a chart on page 23 of NEPC's presentation booklet showing how the firm has added value in virtually all asset classes on a 3 to 5 year basis. Mr. Martin indicated, in terms of performance measurement, NEPC utilizes the ICC universe, which is a universe of custodian-supplied information on a large group of independent consultants. He explained the important feature of this is not manager supplied data, because the firm frequently finds that manager supplied data has biases in it, that at the end of the day are not as useful in understanding how managers are performing. He reported the ICC universe has \$1.3 trillion in assets and consists of 1,600 clients with 2,000 money managers in it. He stated not only is the data objective "real data" that the custodian validates, it is also customizable. Mr. Charlton commented that NEPC was the first firm in the industry to link together the manager search databases and the performance measurement databases, which their competitors do not have.

Mr. Martin stated in the more challenging market environments NEPC does not think domestic equities are going to generate the kinds of returns they have historically; and in a period of rising interest rates, fixed income is not going to perform as it has in the last five years since rates have declined.

Mr. Martin stated, with regards to alternative investments, the firm has dedicated resources supporting the selection, structuring and evaluation of private equity, hedge

funds, and real estate. He added NEPC currently oversees plans that have alternative assets of over \$9.1 billion.

Mr. Martin pointed out that the retainer and fees submitted cover everything from performing a transition management search to assisting the Board and staff in understanding all issues.

Mr. Martin concluded by reiterating reasons NEPC should be chosen as the WPERP's consultant. He stated the firm has demonstrated a track record of adding value, a perfect alignment of interest with their clients, exceptional employees, significant investment in technology, and value of WPERP's business.

Mr. Vazquez inquired where Mr. Martin's office was located. Mr. Martin responded he was located in Redwood, California.

President Romero noted that the firm mentioned they assisted San Bernardino in researching their alternatives because they have experienced staff. He then inquired what NEPC would do in the case of DWP's Retirement Board, who does not have this experience. Mr. Martin responded that everything starts with education and San Bernardino had just lost \$75 million on a program that essentially involved hedge funds. He stated last year at an NEPC offsite education seminar, one of the topics was hedge funds and risk, wherein the firm brought in outside people to speak to the San Bernardino Board. Mr. Martin indicated NEPC has also done some follow up work with the Board and written a five-year program for them so they know what direction they are headed. He stated the process consists of a fairly low risk pooled fund vehicle, lots of education, and building out as opportunities arise.

President Romero noted that the firm said they assisted staff in interviewing for an investment officer and inquired if this was something the firm normally did. Mr. Martin responded that San Bernardino County required an independent review of candidates. Mr. Charlton stated it was not on a list of things the firm would normally provide but it is a natural extension of what they do because they are looking for conceptually similar people for their shop. Mr. Martin commented he had read all of the Retirement Board minutes and the Retirement staff, while qualified, is reasonably new due to turnovers. Consequently, he feels NEPC should indicate their willingness to provide this service.

President Romero stated that out of the three consultants being interviewed, NEPC appears to be the most expensive. He then inquired if the firm's fees were negotiable. Mr. Charlton responded he was glad they were the most expensive and should be because they deliver the value. He also expressed NEPC did not want to lose the account on the basis of fees so there would be a little bit of flexibility.

Mr. Moore noted the firm indicated they feel the WPERP is overweighted in fixed income. He stated if he were to draw from the experience related to the advice NEPC gave San Bernardino, he assumes the firm would recommend the DWP Retirement Board move much further into alternative investments. Mr. Charlton responded he did not want to practice medicine without having examined the patient. Therefore, the first order would be to get a better handle on what the managers are doing. He confirmed

the conclusion Mr. Moore was drawing was correct in that the firm would probably move the Plan a little higher than 5% in hedge funds. Mr. Martin commented that the first effort would be to encourage a broadening of diversification into more attractive asset classes. He indicated most of the Plan's assets today are committed into asset classes that appear, from NEPC's standpoint, to be in the two most expensive asset classes (domestic stocks and bonds). Mr. Charlton added that by "expensive" they meant unlikely to produce high returns. Mr. Martin continued by stating the firm's experience is that small cap, international, global bonds, high yield, and the like have more earnings potential than large cap stocks and domestic high grade bonds. He explained diversification does two things, exposing the fund to the opportunities for improved earnings, but also reduces risk, making it a win-win situation. Mr. Martin stated simultaneously this would give NEPC the opportunity to begin putting educational programs into place so that confused staff and consultants can all begin to point toward the same page. Mr. Charlton commented that his firm has reviewed the Plan's collective investment manager firms and are comfortable with them except for a couple.

President Romero thanked New England Pension Consultants for their presentation. The representatives of New England Pension Consultants thanked the Board and left.

President Romero called for a lunch recess at 12:00 p.m.

[Recess]

The Board meeting reconvened at 12:42 p.m.

Mr. Vazquez indicated his initial ranking of the firms interviewed is 1) PCA, 2) New England, and 3) Callan Associates. He stated he was happy with the employees PCA has assigned to the WPERP and the firm knows who the Board members are, where they are, what they have done, and what they are trying to accomplish. Mr. Vazquez pointed out that on page 12 of PCA's presentation, they laid out a proposed agenda for the next year and a half, which is right on point with the direction he thinks the Plan should be going. Mr. Moore agreed with Mr. Vazquez's rankings. He expressed the Plan has experienced a lot of changes and he did not want to see any more change when so much has been done in the way of altering the portfolio and the custodian. Mr. Moore stated if the Board had trouble with the advice they had been given or with the performance of PCA, then a change should be made. However, he personally is happy with the firm's performance. He stated PCA has given him, as a Board member, the sort of advice he would want with the credibility he desires from a consultant. Mr. Moore pointed out the firm is also offering the strongest personnel out of all the teams, particularly in terms of the depth they offer in two of the areas the Retirement Board has yet to get involved with. He added, out of the three firms, PCA is the deepest in real estate. He stated PCA's immediate team, that would be servicing the Board, has a higher caliber and broader based team than what the other firms are offering, where Callan in his opinion, has a weak team. Mr. Moore expressed one of the things that troubled him about New England is that they clearly are in favor of aggressively going into alternative investments, and he is not going to be comfortable with that at this point. Ms. Calvache stated she was very impressed with PCA and their commitment to the Board. She pointed out that the firm is familiar with the needs of the WPERP and

Retirement Board. She stated her second choice would be New England due to their willingness to commit to training and educating the Board. President Romero stated, in his opinion, PCA and New England were equal. He further stated he knows PCA's capabilities, but was also extremely impressed with New England's capacity to prepare for the interviews, read the Retirement Board minutes, and their foresight with regards to the market. President Romero expressed PCA has done an outstanding job for the Plan so far, and he is comfortable selecting them, but New England gave them a run for their money. Mr. Vazquez moved that PCA be selected as the Plan's consultant for the next three-year period. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Mr. Rozanski reported items 2 and 3 were submitted for consent approval as follows:

- 2. Approval of Board Minutes**
 - a) November 3, 2004 (Audit Committee Meeting)**
 - b) December 1, 2004 (Special Board Meeting)**
- 3. Termination from Monthly Rolls as of January 2005:**
 - Retirement Resolution for January 2005**
 - Termination of Amanda D. Garcia from the December 2004 Family Death Benefit Roll – Attained 18 years of age**
 - Termination of Brittany N. England from the January 2005 Family Death Benefit Roll – Attained 18 years of age**

Mr. Vazquez moved adoption of the above items 2 and 3 on consent. Seconded by Mr. Moore and carried unanimously after the following vote:

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

- 4. Notice of Deaths for December 2004**
- 5. Report of Payment Authorizations as of December 2004**
- 6. Short Term Investments as of December 31, 2004**
- 7. Market Value of the Retirement, Death and Disability Funds as of November 30, 2004**

President Romero reported items 4 through 7 were submitted as having been received and filed. Mr. Vazquez indicated he wanted to make some comments regarding item 7. He thanked staff for putting the table together and requested that under the "description" heading the mandate be provided for each manager listed and be grouped by type of mandate. He also requested the unfunded mandates (emerging markets and high yield) be placed as an agenda item for the next Regular Board meeting. Mr. Rozanski commented that staff also did a summary through December 2004 and the market value was currently at \$6.228 billion. Mr. Vazquez noted that Wells Capital is listed for the Core Fixed in the Retirement Fund as well as for Death Benefit and Disability Fund and he would have thought this would be a common portfolio among all three, but the cost

and market values vary. He pointed out the market value was slightly down on the retirement portion, and up slightly on the death benefit and disability, and he did not understand why. Ms. Bhatia explained that there are different core fixed because the Retirement Fund was a separate account, and the Disability and Death Benefits were in a commingled pool.

Mr. Tom Harrison of Wells Capital approached the podium.

President Romero recognized Mr. Harrison.

Mr. Harrison explained that the major pool of the pension fund is a separate account and the two smaller funds are in commingled funds. He stated when the cash came in on the commingled funds, they were immediately invested as part of the bigger pool. He further stated, with regards to the Retirement Fund, it took Wells a few days to invest the \$950 million. Therefore, there will be slight differences in the market value depending on when it was exactly started. Mr. Harrison returned to the audience.

Mr. Vazquez requested that staff also note any of the mandates that are commingled on the market value report. Mr. Moore suggested the staff insert a column that states when the mandate was fully funded. He stated now that the custodian is on board there would be a lot of reports that will be available to the Retirement Board on a monthly basis as part of the Board package. He expressed it would be useful if there was a committee designated by President Romero to work with the Retirement Office Plan staff in deciding what type of reports that the Board would want to review on a regular basis. President Romero requested this issue be placed as an agenda item for the next Regular Board meeting.

Ms. Calvache moved the above items 4 through 7 be received and filed. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Calvache, Vazquez and Moore

Nays: None

8. Authority to Purchase Commercial Paper from the List of Approved Issuers (Revised)

President Romero introduced item 8 as a resolution giving staff the authority to purchase commercial paper from a revised list of approved issuers. Mr. Vazquez inquired if the new custodian bank was being substituted. Ms. Bhatia responded in the affirmative, adding the issuers were the same. Mr. Vazquez referred to page 8.2, item 3 of the agenda packet and inquired what TBC Inc. Pooled Employee Daily Variable Rate Fund (Stif8) stood for. Ms. Bhatia responded this was the name of the fund that the excess cash would be invested in. Mr. Moore moved approval of Resolution 05-63. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Vazquez and Moore

Nays: None

9. Resolution Authorizing the Renewal of Attorney Michael Wilkinson's Membership in the National Association of Public Pension Attorneys (NAPPA)

President Romero introduced item 9 as a resolution authorizing the renewal of Attorney Michael Wilkinson's membership to the National Association of Public Pension Attorneys (NAPPA). Mr. Moore moved approval of Resolution 05-64. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Calvache, Vazquez and Moore

Nays: None

10. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (January 1, 2005)

b) Status of 1099s for calendar year 2004

Mr. Rozanski reported staff went through another process this morning and the expectation is that the 1099s will be mailed this Friday. He stated staff has gone through a major process to do clean up, which is an annual process, but this year was a little different than prior years.

c) Status of Half-Time Implementation

d) Proposed Legislation Affecting Pensions

Mr. Rozanski informed the Board that the proposed legislation that Governor Schwarzenegger has been discussing was included in the Board package. He stated one of the items was regarding new employees in California public pension plans being moved into a defined contribution plan as opposed to a defined benefit plan. He stated the existing Plan members could opt into the defined contribution plan if this legislation were to pass in a very narrow window of six months, otherwise they could stay in the defined benefit plan until retirement.

e) Transition to Mellon Bank Completed Effective 1/3/05

Mr. Rozanski reported the transition to Mellon bank had been completed and all of the accounts were in the process of being reconciled.

f) General Items

Mr. Rozanski reported there were unofficial election results. He indicated the City Clerk counted the ballots yesterday, and based on the unofficial results, Mr. Canzano won by

56% of the votes. He stated the expectation is that this would go before the upcoming DWP Commissioners Board meeting on January 25th, but if not, the next meeting will not be until February 15th.

Mr. Rozanski noted there was no summary of the investments in this month's Board packet, but the insurance issues related to the Boston Company have been resolved. He also stated the insurance issues related to the remaining investment managers, yet to be funded, have been resolved in terms of an agreement on what the expectations are and it is now just a matter of receiving the documentation that was agreed upon. He stated his expectation is that once the reconciliations are completed for the transition from the Bank of New York to Mellon Bank, which should be completed at the end of January or sometime early February, then staff can move forward with getting the rest of the Board approved mandates funded. President Romero inquired if the mandates that are ready to be funded could not be funded until the two transition managers resolve all the differences at the end of the month. Mr. Rozanski responded it was initially estimated to be around six weeks and staff has not received an update in the past couple of days. However, the recommendation is that it would be preferable not to fund a new mandate until the reconciliations are completed.

Mr. Alex Leonard of Mellon Financial approached the podium.

President Romero recognized Mr. Leonard.

Mr. Leonard stated in speaking with Mellon's conversions team yesterday, they are still working through the reconciliation process, which they expect to take approximately six weeks to complete. However, the conversions team did state they are comfortable with moving out of the Northern Trust commingled fund into the Merrill Lynch commingled fund. They also expressed they would be comfortable with handling the transition from the old Boston Company remnant portfolio and use those funds to handle the new Boston Company mandates as well as T. Rowe Price and Loomis Sayles. Mr. Moore inquired when Mr. Leonard says six weeks, does that mean six weeks from today. Mr. Leonard responded it would be six weeks from the conversion date, which was January 3rd. Mr. Rozanski reported the Boston Company contract has been executed and staff is in a position to coordinate and get that funding done. Mr. Leonard stated there was the possibility that if the final reconciliation is not complete, there may be residual cash that could be associated with this transition process. Mr. Leonard returned to the audience.

Mr. Dave Malacek of Bank of New York Brokerage approached the podium.

President Romero recognized Mr. Malacek.

Mr. Malacek indicated Bank of New York was ready to go pending the settling of all the custodial transactions.

Mr. Moore inquired what position the City or other retirement boards were taking with respect to Governor Schwarzenegger's initiative on defined contributions plans. Mr. Rozanski reported he had not checked with the other Boards but he did receive a call

from the Chief Legislative Analyst Office who is looking into it to decide whether or not to support it or request changes to it. He stated they asked Plan staff for comments and he provided comments to them. Mr. Rozanski stated he basically stated the defined contributions plans would certainly reduce the risk to the Department because all of the risk would be borne by the employee in terms of whatever the return is going to be, making their retirement similar to the private sector. He stated the other concern he raised was whether or not it would affect either recruitment of new employees and/or retention of employees. Mr. Rozanski indicated that one of the bill's provisions provides for a window wherein one could convert their defined benefit plan to a defined contribution plan and still receive the present value of their benefits. He stated the proposed legislation does not provide any vehicle or formulas for calculating the present value of what those benefits might be. Mr. Rozanski explained that all the assumptions that would have to be made are not specified; consequently it could create some concerns and issues. He informed the Board that he could follow up to find out if any positions have been taken. Mr. Moore expressed he was strongly opposed to Mr. Schwarzenegger's initiative on defined contributions plans. Ms. Calvache stated she has received a lot of phone calls and emails regarding this issue and requested the Plan staff to continue to keep the Retirement Board members informed of any additional information.

Mr. Robert Harkins of the Boston Company approached the podium.

President Romero recognized Mr. Harkins.

Mr. Harkins reported he was part of a three-day conference being held in May and one of the topics of conversation is on this particular issue. He stated he would be happy to update the Board on any information he received. Mr. Harkins also indicated that the same concerns the Retirement Board is expressing are the same concerns that are arising across every one of the county systems.

11. Future agenda items.

The Board meeting was adjourned at 1:12 p.m.

JAVIER ROMERO
President

ROBERT ROZANSKI
Secretary

IRENE COLON
Recording Secretary