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

MINUTES – December 7, 2005

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Michael Moore	Retiree Member
Eugene Canzano	Board Member
Ron Vazquez	Chief Financial Officer
Ronald Deaton	General Manager
Forescee Hogan-Rowles	Commissioner

Absent:

Others Present:

Conney Williams	Assistant Retirement Plan Manager
Rodelio Abarro	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Tad Fergusson	Pension Consulting Alliance
Michael R. Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:38 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero stated there were no public comments.

President Romero welcomed new Board member Commissioner Forescee Hogan-Rowles.

President Romero reported items 1 and 2 were submitted for consent approval as follows:

1. **Approval of Board Minutes:**
    a) **September 21, 2005 (Regular Board Meeting)**
    b) **October 19, 2005 (Regular Board Meeting)**
2. **Termination from Monthly Rolls as of November 2005:**
   Retirement Resolution for November 2005

Resolution terminating Norma L. Nakama from the October 2005 Survivorship roll as a result of her death

Resolution terminating Socorro Flores and Lois E. Hopkinson from the November 2005 Survivorship roll as a result of their deaths

Mr. Moore noted an error in the October 19, 2006 Board minutes on page 1b.10 of the agenda packet, wherein it states “President Moore”, and should read “President Romero.”

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

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, Hogan-Rowles and Moore

Nays: None

3. **Report of Payment Authorizations as of November 2005**
4. **Notice of Deaths for October 2005**
5. **Report on Status of Insurance**
6. **Summary Investment Returns as of October 31, 2005**
7. **a) Market Values of Investment by Fund and Month**

   b) Market Value of the Retirement, Death & Disability Funds as of October 31, 2005

President Romero reported items 3 through 7 were submitted as having been received and filed.

Mr. Moore referred to page 5.1 of the agenda package to a chart reflecting the insurance status for the Plan’s investment managers. He noted there were quite a few managers with insurance that had expired since May. Mr. Moore stated it was his assumption that the insurance had been rolled over and DWP had not been given confirmation of the fact of the insurance being reissued. Mr. Abarro indicated an updated list of the insurance status was distributed to the Board members before the meeting. He pointed out that Boston Company (international equity developed market) has insurance that is fully approved, and Aeltus/ING Investment Management (fixed income) is also now fully approved. Mr. Moore reiterated that it was his assumption that the insurance policies were not lapsing, and the Department has not been notified or been given proof of renewal. Mr. Abarro responded this was the case and there has also been a lot of back and forth while the insurance expires. He explained that a lot of requirements have to be met between the Department’s Risk Management Section and the managers. Mr. Deaton inquired about the insurance status of Merrill Lynch because the chart states their insurance expired on May 1, 2005. Mr. Abarro responded Merrill Lynch is currently in negotiations and there are pending issues with the risk manager. Consequently, the firm is out of compliance. Mr. Deaton recommended Mr. Neaman (risk management) join the Board meeting to address this issue.

Mr. Moore referred to the summary of investment returns chart on page 6.1 of the Board agenda package and expressed his concern that the present market value is less than the inception amount. He noted a partial reason for the difference is because it includes monies that were transferred into the Merrill Lynch account from Northern Trust. Mr. Moore then referred to a “market value of investments by fund” chart on page 7a.1 and compared the passive investments, which is up 30% over 2 years. He stated it did not make sense to him that there is a lesser market value now than in the inception amount. He inquired if this was due to monies being taken out to fund the international market. Mr. Abarro responded in the affirmative. Mr. Moore suggested that another amount be shown to reflect this so that it is not misleading. He further inquired if monies are taken out should there be adjustments made to reflect this also. Mr. Abarro responded that the cash flow coming out of these accounts are adjusted to reflect the true investment rate of return, which is reflected in the two far left columns. Mr. Moore suggested a footnote be added to the chart with an explanation. Mr. Deaton inquired if an additional column could be added reflecting the adjustments. Mr. Abarro responded in the affirmative.

Mr. Moore moved the above items 3 through 7, except for item 5 (still on the table) be received and filed. Seconded by Mr. Deaton and carried unanimously after the following vote:

> Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, Hogan-Rowles and Moore
>
> Nays: None

8. Investment Manager presentations – Core Fixed Income

a) ING

Mr. Joe Pickert, Sr. Vice President (Institutional Sales and Relationship Management), Ms. Cynthia K. Dempsey, Senior Portfolio Specialist (Fixed Income), and Ms. Eileen T. Madden, Vice President (Head of Client Services) from ING Investment Management approached the table. President Romero recognized the representatives of ING Investment Management.

Mr. Pickert thanked President Romero for his participation in the Neighborhood Youth Association Dinner, which raised a significant amount of money for children in the Los Angeles area.

The ING representatives provided the Board with a presentation of the performance of the Water and Power Employee Retirement Plan’s (WPERP’s) core fixed income portfolio.

Mr. Moore inquired about the amount of turnover in the core fixed income portfolio. Ms. Dempsey responded that ING looks at outside financing strategies, which cause higher turnover. But excluding that turnover is about 200% or less every year. Ms .Dempsey explained that since ING are security selectors there is going to be turnover because they are definitely not a buy and hold firm. Mr. Pickard expressed that ING feels like it actually significantly reduces the risk by not sticking with an issue that is going down.

President Romero thanked the representatives of ING Investment Management and they left the Boardroom.

5. Report on Status of Insurance

Item 5 was reopened.

Mr. Avery Neaman (risk management) approached the Board table. President Romero recognized Mr. Neaman.

President Romero stated there had been several discussions regarding insurance, and one of the questions was about expiration dates. He requested Mr. Neaman provided the Board with an update as to where the Plan stands with each money manager's insurance status.

Mr. Moore indicated his specific question is when the status states "expired May 1, 2005" does this mean there is no insurance in place and the policy has lapsed, or that the firm just has not given sufficient notification. Mr. Neaman responded it was the latter, and he did not think Merrill Lynch would let their own crime fidelity coverage lapse. He explained what the chart indicates is that the acceptable proof of insurance showing that the Plan has protection is not acceptable and not in compliance with the contract. Mr. Moore inquired why the insurance was not rolled over. Mr. Neaman responded that occasionally the insurance will roll over, and very frequently a firm will change carriers, which may result in issues about proof of insurance. He stated the issues reflected in the chart are probably a result of proof of insurance. He added, the City has their own forms and does not accept certificates of insurance, which are in the form of common industry accepted documents. Mr. Neaman outlined the normal process stating that 30 days before the expiration Risk Management sends the manager a letter. If a response has not been received after two weeks has lapsed, another letter will be sent. Mr. Neaman stated that risk management has been working with Merrill Lynch since May regarding their particular issue. He stated after three attempts the file is closed and payment of fees to the investment management firm is withheld. Mr. Neaman reported he handles 100% of the investment manager files, and has not had any recent discussions with Merrill Lynch. However, he has received daily calls from John Plowright of T. Rowe Price who is trying to work out their insurance issues. Ms. Calvache inquired if staff has talked to anyone from Merrill Lynch. Mr. Abarro responded staff has not spoken with Merrill Lynch as far as he knows. He concurred with Mr. Neaman that standard procedure is to withhold payment until the risk manager informs staff otherwise. Ms. Calvache inquired how long payment has been withheld form Merrill Lynch. Mr. Neaman responded apparently as long as the withholding policy has been implemented, approximately four months.

Mr. Vazquez pointed out that the chart reflects Fred Alger and Invesco's insurance have also expired. Mr. Moore requested, prior to the next meeting, the report be changed to reflect if the insurance has been renewed, and state in a comments column what the pending issues are.

President Romero inquired if it would help matters if the Plan Manager contacted the public relations person at the management firms lapsing in their insurance. Mr. Neaman replied that any support Risk Management received would be appreciated.

He also commented the fact a manager has coverage for themselves, offers the Department no protection. Mr. Neaman explained that Risk Management gets status on the managers' policy either by additional insured status, confirmation of contractual liability, or by loss payee status. He stated without a confirmation on the status of their policy it is of no benefit to DWP. Mr. Neaman guaranteed 100% that none of the management firms would let their own coverage lapse.

Commissioner Hogan-Rowles requested Mr. Neaman give each investment manager's insurance status for informational purposes. Mr. Vazquez inquired what "professional liability coverage not approved" meant. Mr. Neaman responded it means the manager firm's errors and omissions for the professional liability proof of insurance is not in compliance with their contract and they will not be paid their fees. He indicated the contract administrators of these contracts are key in motivating the companies to comply. Commissioner Hogan-Rowles inquired if it was DWP's responsibility to ensure the managers are in compliance, or are the form letters sent out and it is expected that each of the firms respond and, if not, they are not paid. Mr. Neaman responded in the affirmative. However, before it gets to the point of nonpayment, the contract administrator should be making phone calls and inquiring on the status.

Ms. Calvache inquired, with regards to Merrill Lynch's insurance expiring in May 1, 2005, for crime/fidelity, would the firm have to get insurance coverage starting from that date. Mr. Neaman responded in the affirmative. Commissioner Hogan-Rowles inquired what happens if Merrill never responds. Mr. Neaman responded that risk management has closed their files on cases where the expiration date is three and four months old, and does not take further action unless prompted to do so.

Mr. Vazquez inquired who the contract administrator for the listed contracts was. Mr. Abarro responded it was assigned to different people. President Romero responded to Commissioner Hogan-Rowles question stating, if over time the Manager does not respond it would come back to the Retirement Board, who would then decide whether to keep the money manager or fire them. He commented this was an area that is new to staff and the Board and there has been a lot of transitioning and changing of the guard. President Romero suggested the process be refined by sending letters out three months before the expiration date, making phone calls two months before the expiration date, and when it actually expires have the certificate in place. If not, there needs to be a Board action immediately after.

Mr. Neaman informed the Board that Risk Management takes the lead on all issues regarding proof of insurance, but there comes a point where his unit needs support from the contract administrators. If there is an expiration coming up 30 days from today, Risk Management would take the lead by sending out a letter, two weeks later a second letter would go out, and on the date of expiration the third letter would be issued. At this point the contract administrator needs to start making phone calls to inquire what the cause of delay and status is. Mr. Deaton inquired if the three letters were also sent to the contract administrator. Mr. Neaman responded in the affirmative. President Romero commented that 30 days was too short of a window and should be extended to a minimum of 60 days. Mr. Neaman welcomed any of the Retirement Plan staff to meet with Risk Management to observe their systems and procedures, which maintains detailed records of interaction with all contractors and investment managers. Mr. Moore requested the Board be informed of the additional conversations there were on the part of the contract administrators, if calls were made, and if the manager the Board typically works with was involved in those discussions. He stated part of the dilemma might be that the portfolio manager is not aware of the problem until a few payments have been missed. Mr. Neaman expressed this was an excellent point, and that the contact person from the investment management firm is always picked up from the named person in the contract.

Ms. Calvache commented that when she was a contract administrator, a copy of the letter that was sent to the contractor was also sent to her so she was aware the contractor was not in compliance. She would then follow up and connect with someone in Risk Management. Mr. Neaman emphasized that Ms. Calvache’s statement is honing in on the point that the contract administrator is the key person in the process. President Romero commented that every money manager that comes before the Retirement Board has a client service representative with them, who is the catalyst between the Department and the firm. He added this is the person we need to utilize to push their firm if they want to continue to do business with DWP.

Mr. Alex Leonard of Mellon Financial approached the podium. President Romero recognized Mr. Leonard.

Mr. Leonard commented that even though Mellon does not pay the manager expenses for DWP, in the instances where they have done this for other plans, there are some managers whose investment fees are taken directly from the fund (such as the case of a commingled vehicle). Therefore, the managers may be receiving payment without having to submit an invoice. He then suggested staff review the contracts for this type of payment. Mr. Leonard returned to the audience.

Mr. Deaton inquired, as far as the conversations with T. Rowe Price, does Risk Management e-mail the contract administrator to make them aware of those conversations. Mr. Neaman responded in the negative, stating if there is a significant event then he would. He informed the Board that, as of yesterday, he has been working with T. Rowe Price’s risk manager and insurance broker. Mr. Neaman explained one of Risk Management’s control mechanisms, is they will not award a new contract to an investment manager until they have fully complied. Therefore, the fact that some investment managers are presently out of compliance is a result of renewal proof of insurances not being submitted. Mr. Deaton proposed that some of the ongoing conversations be shared with the contract administrator so that they are kept aware of the status of resolutions.

Commissioner Hogan-Rowles requested the Board be informed of how each Plan management firm’s fees are being paid. Mr. Deaton requested Retirement Staff submit this information to the Board at the next Retirement Board meeting.

Mr. Moore moved that Item 5 be received and filed. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Vazquez, Deaton, Hogan-Rowles and Moore

Nays: None

8. Investment Manager presentations – Core Fixed Income
b) Wells Capital

Mr. Thomas Harrison, Managing Director, Ms. Marie Chandoha, Co-Head & Senior Portfolio Manager, and Ms. Sandra M. Willen, Managing Director of Client Services from Wells Capital Management approached the table. President Romero recognized the representatives of Wells Capital Management.

President Romero congratulated Mr. Harrison on his move back to Georgia and expressed his gratitude for his work with the DWP Retirement Plan and the Los Angeles community.

The Wells representatives provided the Board with a presentation of the performance of the Water and Power Employee Retirement Plan's (WPERP's) core fixed income portfolio.

Mr. Moore inquired what the turnover has been in the portfolio over the last year. Ms. Chandora responded the turnover is approximately 400%. She explained that Wells has an active style and their turnover ranges from 200% to 500%.

President Romero thanked the representatives of Wells Capital Management and they left the Boardroom.

9. Presentation of Audit Report and Annual Financial Statements as of June 30, 2005

Grace Yuen (CPA) and Frank Liu (CPA) of Simpson and Simpson approached the Board table.

President Romero recognized the representatives of Simpson and Simpson.

Ms. Yuen reported that Simpson & Simpson completed the audit of the Water and Power Employees' Retirement, Disability, and Death Benefit insurance Plan for the year-end of June 30, 2005. She and Mr. Liu proceeded to briefly review the audited financial report distributed to the Board members.

Mr. Moore requested the representatives discuss Simpson & Simpson's experience and their recommendations to the Retirement Board with regards to the change in the nature of the relationships with Boards and the establishment of audit committees. Ms. Yuen responded that the firm has already seen changes in the nonprofit sector and it is moving toward the government sector. In the government sector they test compliance and internal control over financial reporting. She stated, with regards to the Audit committee, they would advise the Committee to routinely meet with the auditor and be more active in the selection of the auditor. Ms. Calvache inquired if Ms. Yuen was recommending the Audit Committee meet more frequently. Ms. Yuen responded in the affirmative.

Mr. Vazquez left the Board meeting at 11:07 a.m.

10. Request for Information for Integrated Pension System (Computer System) for the Retirement Office for Board review and approval

President Romero noted there was redundancy in a couple of the questions in the Request for Information (RFI). He referred to page 13 of the RFI, pointing out that questions 18 and 19 were the same. President Romero also referred to page 11, number 33, wherein it states "to calculate the annual cost of living adjustments for eligible retirees based on the CPI to a maximum of 3%". He expressed his concern that the Department does not have a program that will only limit us to 3%. Mr. Abarro responded it would be a variable where a number could be plugged in. Mr. Williams stated the language could be changed to state the percentage would be based upon the Plan language.

Mr. Moore inquired if there is any slack in the schedule, which is during the holidays. Also, will this schedule for the deadline of submission for the RFI lessen the chances of good proposals. He then suggested adding a few weeks into January in order to make it easier for respondents. Mr. Deaton agreed that three weeks should be added to the deadline.

Mr. Moore noted the RFI talks about contractor questions and submittal of responses. He then inquired if there is normally a bidders' conference, or is this just done loosely during the course of the period. Mr. Deaton stated there should be a bidder's conference. Ms. Calvache inquired if this was a requirement of the Purchasing Department. Mr. Moore commented that the reason for the conference is for everyone to hear the same answers. Mr. Deaton added that at the bidders' conference all of the questions should be answered in writing and sent to all of the bidders. Mr. Abarro responded that the Retirement Office usually requires the contractor e-mail the questions and staff in turn e-mails both the questions and answers to all the respondents.

Mr. Moore commented that the $10 million crime coverage seemed high, but he was not sure if it was reasonable or unreasonable. Mr. Neaman stated that Risk Management would look into it. Mr. Williams added that a lot of the numbers and requirements were based on research of LACERS' implementation of Pension Gold.

Mr. Moore noted there was a very large exhibit entitled "Agreement for Information Technology Products and Services", and inquired if those provisions would be viewed as onerous by individuals outside of DWP. Mr. Williams responded that staff does not have a true feel for this, which is why it was decided to change it from a RFP to a RFI. He added a RFI would give a better understanding of some of the issues surrounding the software because there is so much volatility and so many changes going on right now. Mr. Moore inquired if the requirements for an RFI are not so exacting that exceptions could be made. Mr. Williams responded in the affirmative.

Commissioner Hogan-Rowles inquired about the outreach process. Mr. Williams responded that staff researched the process of finding individual companies that qualify under the Department's specific requirements. Mr. Deaton inquired if the RFI could be put on the internet. Mr. Williams responded that it was already on the internet. Mr. Deaton also inquired if there was a publication the RFI could be posted in. Mr. Abarro stated it could be advertised with *Pension and Investment* magazine.

Mr. Moore moved to adopt the Request for Information for Integrated Pension System for the Retirement Office. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Deaton, Hogan-Rowles and Moore
Nays: None

11. Discussion of Hedge Fund Investment Strategy and Policy and possible approval

Ms. Bernstein and Mr. Tad Fergusson of Pension Consulting Alliance (PCA) approached the Board table.

President Romero recognized Ms. Bernstein and Mr. Fergusson.

PCA presented the Board with a hedge fund policy overview and strategy. Mr. Fergusson indicated the revisions in the new policy primarily reflect some preferences to emphasize more conservative, less volatile type spectrum of the risk return of the hedge fund program. He stated PCA also added portfolio construction type language to outline the 1% target allocation of the program, how much in assets this would represent, and their recommendation to search for two or three managers to implement this program.

Mr. Moore referred to page 3 of PCA's investment strategy booklet, wherein there is a list of strategies that may be implemented through a fund of hedge funds. He stated it was his understanding that some of the items that are the more volatile in the strategies would be stricken. He then inquired if there was a reason this was not done. Mr. Fergusson responded that a few could be stricken, but some strategies may be implemented in a less volatile manner or with a bare minimum exposure allowing it to be a little more inclusive rather than exclusive. He added it could be determined through the selection process if there is inappropriate exposure. Mr. Fergusson stated global macro was the first strategy with a lot of volatility that a lot of people exclude. He expressed his opinion that it would be more appropriate to keep it in the policy and under consideration through the selection process to determine if it is appropriate given a particular response. Mr. Deaton emphasized he was very concerned about how the Board approaches hedge fund investments.

Mr. Moore noted that in the private equity anything beyond the borders of the U.S. was specifically precluded, and the reason for that, among others, was because the Board wanted to have access to the Court should there be a need. He then inquired when talking about global macro emerging markets if PCA was referring to non-U.S. hedge funds. Mr. Fergusson responded that this was the intention, but there could be situations where there are some non-U.S. based managers in addition to some non-

U.S. investments. He added this possibility was left in. Mr. Fergusson explained that in the private markets there is less regulation, but the types of international investments expected would be more public equity investments rather than international private equity. Therefore, PCA felt comfortable leaving those types of opportunities in the policy. Ms. Bernstein commented there are a few very large established European based hedge fund-of-funds that the Board may or may not want to consider as a potential within the RFP process.

Mr. Moore expressed, with regards to hedge funds, he would be more comfortable without Global Macro and Emerging Markets for the reasons discussed. However, it would be acceptable if there are really compelling reasons that we are going to limit even the U. S. funds in the process because they are engaged in some of those activities external to the country. Ms. Bernstein responded there were no other arguments than what was previously stated. She pointed out if global macro is excluded and the Board hires a great manager that has 1% exposure to it in their commingled vehicle, then a separate account would have to be set to make use of their service. Ms. Bernstein pointed out that this was an example of why PCA left it in to be weeded out on a specific basis that is at a comfort level for Water and Power, rather than excluding it from the overall policy. Mr. Moore expressed he was comfortable with it on that basis, knowing this would be looked at very carefully venturing into specific fund-of-funds. President Romero commented the Board may be limiting themselves from getting some very good managers. Ms. Bernstein indicated that PCA could take another look at the language and add another sentence so that it is explicit with more emphasis throughout the execution and implementation.

Mr. Moore moved for approval of the Hedge Fund Investment Strategy and Policy on the basis of additional modification of what was discussed. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, Deaton, Hogan-Rowles and Moore
Nays: None

12. Discussion and possible approval of Private Equity Investment Policy (deferred from August 17, 2005 meeting)

Mr. Fergusson indicated there were a lot of edits to be made in the language, but one primary area that was adjusted was the emphasis on increasing the consultant's role. He stated the previous language had staff assisted by the consultant, and it was reversed so that the consultant has the primary role and is assisted by staff. Mr. Fergusson also indicated a long-term internal rate of return benchmark was added to complement the public market plus premium benchmark, which is the 15% net internal rate of return as the long-term target. He stated he removed language regarding risks of international exposures and added explicit language stating this was not under consideration at this time.

President Romero commented that the hiring process for private equities would be somewhat different than what the Board is normally used to. Normally money managers are brought in to be interviewed. However, in private equity one would venture out to find a really good money manager and bring them before the Board for approval. Ms.

Bernstein added that PCA would bring specific opportunities forward, the management teams will do a full review of that particular opportunity, and then the management team will come in to present to the Board. She added that PCA will not bring people in unless they recommend them. At that point it will be up to the Board to decide whether they want to fund the manager, and if so, at what level.

Commissioner Hogan-Rowles left the Board meeting at 11:30 a.m.

Mr. Moore inquired, based on the policy, what was the likelihood of PCA bringing the partnership options in the near future versus fund-of-funds before the Retirement Board. Mr. Fergusson clarified that fund-of-funds are also limited partnerships. He stated PCA is definitely emphasizing fund-of-funds initially and that this is their intention primarily throughout the first year. He added it would be primarily at the Board's comfort level or desire to look at direct partnerships. Ms. Bernstein commented that the intent is that once a policy and strategy is approved for private equity, then we will look at secondary fund-of-funds to make sure the fund has an exposure to other vintage years. She stated there are also two top tier secondary fund-of-funds that are open currently that PCA will take a look at if the policy is approved. Also, during 2006 there may be varied top quality direct partnerships that PCA wants to make sure to get into DWP's portfolio into. Ms. Bernstein explained that in going into the strategy in 2006, the general plan is 3 to 5 maximum/minimum and a couple of fund-of-funds. Mr. Moore explained the reason for his inquiry is because the Retirement Board and staff have no experience in this area. When you start getting involved in partnerships you are one level down in terms of the expertise that is being applied and this troubles him. As far as fund-of funds there is a manager who knows some of the players and has more expertise. Also, PCA would also be assisting in that. However, when we start getting down to the partnership level he has greater discomfort. Mr. Moore stated there was an additional issue that when the Board begins picking some of these individual deals and a general partner wants to get backing for his latest schemes there is going to be potentially more political pressures. He indicated he would like the idea of there being some insulation from that through the fund or portfolio manager approach. Mr. Deaton suggested that if the initial policy does not have the partnerships it can be expanded after the Board and Retirement Plan Office has had more experience. He commented there is also a resource allocation issue. Mr. Deaton expressed he would rather PCA spend more time on a fund-of-fund initially so we can get our feet wet on that process rather than looking at these individual situations.

President Romero inquired if the Board should be this concerned. Ms. Bernstein responded the Board should be concerned as fiduciaries, but she was comfortable from PCA's point of view. However, PCA would recommend that starting in 2006 with fund-of-funds and not putting the fund into anything else, not even Blackstone (a fund everyone is trying to get into). She expressed her opinion that over the longer term one would get additional opportunities by using direct select partnerships where there is more of an ability to concentrate into the top tier managers. Ms. Bernstein noted in going through some of the private equity educationals there is a wide spectrum of returns. She stated in the longer term the Board can always revisit the policy next year. Mr. Deaton commented that this would be the intent. President Romero inquired if Blackstone was a fund-of-funds. Mr. Fergusson responded that Blackstone is a very well known and respected buyout group. President Romero stated he understood everyone's concern. However, there are a lot of Boards making tons of money on Blackstone. He expressed his opinion that it would be a breach of the Board's fiduciary responsibility not to hear them out. He added that the Board may be limiting the opportunities by saying no and not hearing from any of these firms.

Mr. Canzano inquired, for clarification purposes, if the Board was suggesting revising the policy annually. Mr. Deaton responded that the Board was considering revising the policy once they have gained some experience and limiting it to fund-of-funds as opposed to direct partnerships. He explained if there is successful implementation of that policy it would be reviewed and expanded. However, if it was less than successful it might be reduced. Mr. Moore commented that the Retirement Board is getting involved in three new areas (hedge funds, real estate, and the private equity market) that are all esoteric based upon the Board's experience. He expressed his preference to pursue these areas conservatively and adding to it down the road some time. President Romero stated he concurred with Mr. Moore's feelings, but he did not see any harm in listening to these companies. Ms. Bernstein commented, with regards to the search process, it would be difficult to bring in people that the Retirement Board is not really interested in -- from PCA's and the manager's point of view. She suggested that what might be useful is to think of additional avenues of educationals for the Board, rather than bringing in real managers.

Mr. Moore moved to approve the Private Equity Investment Policy and Strategy concentrating on fund-of-funds only for the year 2006. Seconded by Mr. Deaton and carried after the following vote:

Ayes: Calvache, Canzano, Deaton, and Moore
Nays: Romero

Mr. Deaton left the Board meeting at 11:45 a.m.

13. Discussion and possible approval of Private Equity Investment Strategy (deferred from August 17, 2005 meeting)

Ms. Bernstein referred to a chart on page 5 of PCA's 2006 Investment Strategy Booklet and explained that the projected dollar amounts were just targeted numbers and not definitive goals. She added that the numbers could be revised to reflect a range of amounts. She stated the same goes for the number of partnerships and commitment per partnership. Ms. Bernstein stated the Board may want to concentrate more with top tier managers approach for DWP's size of fund. She stated on the other extreme, down the road, there are fund-of-funds of emerging manager programs, which the Board may want to have exposure to, but in a much smaller percent.

Ms. Bernstein indicated the only additional edits would be to change both documents to reflect the Board's decision to go with fund-of-funds only at this point in time, which includes secondary and new fund-of-funds.

Mr. Fergusson left the Board meeting.

14. Presentation of investment performance by PCA for the quarter ending

September 30, 2005

Ms. Bernstein presented the Board with DWP's portfolio's investment performance for the quarter ending September 30, 2005. She reported the only place the portfolio was over the set allocation is in domestic equity. She explained the reason for this is because all of the money for real estate and private equity is parked in the domestic equity plan. Ms. Bernstein reported the portfolio came in almost exactly as the policy return, just shy by 10 basis points at 3.4% versus 3.5%. Domestic equity had a very good quarter, but some of the international managers underperformed. Both domestic fixed income managers outperformed, but it was still a -0.3% return for the quarter. Ms. Bernstein stated in the latest year the overall policy performance underperformed the benchmark return by 11.6% to 12.4%. She explained the reason for this was because of benchmark significant outperformance in international, and during this period the portfolio was not in high yield or emerging markets.

Ms. Bernstein reviewed the summary of gross of fees returns for each manager. She noted that PCA would be amending the format of the summary and will also include the target ranges.

Mr. Moore commented it was previously discussed that the Board get a better handle on working with Mellon with regards to the Universe. Ms. Bernstein responded that this item could be placed on the Board agenda of the meeting after the next Board meeting.

Mr. Moore inquired, from looking at the numbers from last year, if some of the portfolio's assets were sold. Mr. Abarro responded in the affirmative. Mr. Moore inquired how the choice of which assets to sell was made. Mr. Abarro responded Merrill Lynch chose to dispose assets from the passive accounts. Mr. Moore inquired if it was a matter of policy that if assets need to be disposed of it would be from the passive accounts. Mr. Abarro responded in the affirmative. Ms. Bernstein added, only if your cash is not sufficient to cover it.

15. PCA's report on the Investment Manager Monitoring Procedures and Criteria for Board consideration and adoption

Ms. Bernstein reported that the Plan has a full investment policy and PCA recommends expanding it to include more details since there are now managers the Board may want to formally put on watch. She stated it was just a matter of having something in writing so that everyone is clear on the procedures.

Ms. Bernstein reviewed the investment performance criteria set up by PCA. She then mentioned that Mr. Vazquez had a few grammatical corrections he wanted made when PCA redrafted the procedures and criteria.

Mr. Moore moved approval of the Investment Manager Monitoring Procedures and Criteria subject to grammatical changes. Seconded by Mr. Canzano and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Moore

Nays: None

16. Authorization for City Attorney Mike Wilkinson to attend the 2006 Winter Section Meeting of the National Association of Public Pension Attorneys (NAPPA) in Washington, D.C., in February 2006

Mr. Moore moved approval to authorize City Attorney Mike Wilkinson to attend the 2006 Winter Section Meeting of the National Association of Public Pension Attorneys (NAPPA) in Washington, D.C., in February 2006. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

17. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (October 1, 2005, Edition)

b) General Items

Mr. Williams reported the Board had already received a copy of the October 1, 2005 Newsletter for DWP retirees. He then informed the Board that the newsletter states that retirees' December check will be paid on January 3, 2006.

Mr. Williams announced that Ms. Christina Munoz was hired as a Management Analyst in the Retirement Office effective November 28, 2005. He also announced that Ms. June Kim was hired as an Investment Officer in the Retirement Office and would start the beginning of next week.

The Board meeting was adjourned at 12:06 p.m.

JAVIER ROMERO
President

CONNEY WILIAMS
Secretary

IRENE COLON
Recording Secretary