

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

MINUTES – March 1, 2006

Present:

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

Absent:

Ronald Deaton	General Manager
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Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Michael R. Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:36 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero inquired if there were any public comments.

Mr. John Hill (DWP employee) approached the podium.

President Romero recognized Mr. Hill and informed him that an exchange of dialogue is not allowed in public comments and there is a three minute maximum.

Mr. Hill requested the correct procedure for “meet and confer” on the issue of additional contributions. He indicated he had addressed this issue in past Retirement Board meetings. Mr. Hill stated that yesterday, he was informed by Mr. Peter Lakatos (Director of Human Resources) that either the union or members of the Board can address the issue of the additional contribution situation and change it. However, Mr. Romero and Ms. Lilly Calvache had described to him in past conversations that this was a “meet and confer” issue. He stated he relied on their expertise and judgment and in looking back in the records Mr. Vazquez made a proposal which was withdrawn because it was indicated by Mr. Romero that it was a “meet and confer” issue. Mr. Hill indicated that on

numerous occasions he has approached the IBEW and requested they consider this issue, but his calls have never been returned. He indicated that he went to the California Senate and asked for her intervention on this issue. He stated the Senator contacted IBEW's Mr. Russ Butow, Lilly Calvache and Elsie Hadley. He further stated that Senator Garnett conveyed to him a comment was made that since Mr. Hill was not a member of the IBEW then they were not going to respond to him. Mr. Hill expressed that he has a right to be under the provisions of the working rules and have his contribution given to a charity in lieu of being a member of the union. He stated, as an employee he should also have the right to have an issue addressed either through the procedures of the Board or through the union, if it is under their jurisdiction.

Mr. Hill suggested the Board give him an indication of what the correct procedure is for members of the union in his working group who would like to support a petition to make the changes. He stated he would like to know what the correct procedures are to follow so that this issue could go forward. Mr. Hill thanked the Board for the opportunity to express himself.

Commissioner Hogan-Rowles inquired of Mr. Hill the nature of his issue. Attorney Wilkinson indicated the question has to be brief and cannot lead to an extended discussion. Commissioner Hogan-Rowles inquired if Mr. Hill's issue is that instead of paying union dues he wants the option of giving the money to a charity and there currently is no process to do this. Mr. Hill clarified his issue is concerning the additional contribution to the Retirement Plan. He stated LACERS has a plan in place that has certain provisions not available to DWP employees and he is suggesting a change to conform with some of the LACERS provisions. Mr. Hill reiterated that any attempt he has made to the Board or the union, he was advised that a "meet and confer" process was necessary. He expressed that trying to arrange a "meet and confer" with members of the high ranking members of the union has always been denied him.

President Romero reported item 1 is submitted for consent and approval as follows:

1. Approval of Board Minutes of January 18, 2006

Mr. Canzano referred to page 1.11 of the agenda package and pointed out a typo where the term "fund to funds" should read "fund of funds".

Mr. Moore moved adoption of the above item 1 on consent with the noted changes. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Nays: None

2. Investment Manager Presentations – Emerging Markets

a) The Boston Company

Mr. Robert Harkins, Vice President of New Business Development, Mr. Lawrence Ivey,

Vice President and Senior Relationship Manager, and Ms. Carolyn Kedersha, International portfolio Manager and Senior Vice President of The Boston Company approached the Board table. President Romero recognized the representatives of The Boston Company.

The representatives provided the Board with a presentation of the Water and Power Employee Retirement Plan's (WPERP's) emerging market portfolio. Mr. Harkins reported that the WPERP funded Boston Company with \$50 million and the portfolio's value as of the end of the year was at \$60 million and up another \$6 million since then. However, they have trailed the index by a little less than 300 basis points during that time period. Mr. Moore inquired if there was anything to report since inception to the end of the most recent quarter. Mr. Harkins responded at the end of February the portfolio was up 9.9% in addition to the 20.8% since inception. He reported for the past five years ending December 2005, Boston Company's returns exhibit less volatility while being higher than either the index or the median of their peer group.

Mr. Moore inquired, with respect to the large inflows of capital, particularly into the large cap sector, how does Boston Company look at that risk. He added one would assume at some point the market is going to correct itself. Ms. Kedersha responded that Boston is market cap aware, however they are not going to change their disciplined investment style because the large caps are running. She expressed it was Boston's opinion that this is actually the wrong thing to do. She explained what is going to happen is that the large cap stocks will begin to stall out and the outperformance will come from the small and midcap stocks. Ms. Kedersha stated in terms of an actual correction, the question is what would cause the emerging markets as an asset class to correct quite sharply. She stated one answer is if the Federal Bank enters a period of time where they are tightening well above the normal level of 5% and at the same time the European Central Bank is beginning to move towards tightening. She added we have all been told that the Japanese Central Bank is going to go from 0% interest rates to at least positive interest rates. Ms. Kedersha explained if there was a period of very strong tight monetary policy this usually ends the story for emerging markets. She stated currently the yellow flag is up because we are tightening but it is not close to that period of time.

The representatives of The Boston Company left the Board meeting.

b) T. Rowe Price

Messrs. Kurt Umbarger, Vice President and Portfolio Specialist of International Equities, and John Plowright, Vice President and Institutional Client Service Executive of T. Rowe Price approached the Board table. President Romero recognized the representatives of T. Rowe Price.

The representatives began their presentation of the Water and Power Employee Retirement Plan's (WPERP's) emerging market portfolio.

Mr. Umbarger reported that for the year ending December 31, 2005, T. Rowe Price outperformed by 800 basis points on a gross basis. However, in February the firm gave approximately 100 basis points back. He added the portfolio is underweight in the export oriented areas (technologies and materials). Mr. Vazquez inquired what T. Rowe

Price's maximum underweight is per their guidelines. Mr. Umbarger responded plus or minus 15 percentage points.

Mr. Moore inquired if T. Rowe Price had a response in terms of the concerns that were expressed by The Boston Company regarding what is going on in the large cap and the over valuation, particularly price to book. Mr. Umbarger responded T. Rowe Price would share their concerns, but he would not skew his comments towards how it is affecting the cap range. However, he would agree that the majority of the flows have tended to go into larger cap and more liquid names. But it is also having an affect down the cap range as well and is not isolated to large cap companies within emerging markets. Mr. Umbarger expressed the froth that has come into emerging markets over the last six months where returns have been very strong and the hedge fund community is more active in the emerging market asset class does give T. Rowe Price some concern. Consequently, they are taking liquidity much more seriously. He indicated Wells is noting which companies within their trading volumes have adjusted during the course of the last 6 to 12 months. He stated T. Rowe Price shares the concerns expressed by The Boston Company that at some point in time there will be a short term impact to emerging markets investing broadly as faster moving money is shaken out.

Mr. Umbarger pointed out an error in the booklets provided by T. Rowe Price. He referred to page 21 of the portfolio characteristics, noting a mislabeling and error in the numbers in terms of the Price/Earnings ratio. He stated it was labeled 12 months forward, yet the numbers themselves actually reflect 12 months trailing. Consequently, the proper numbers would be 11.4 x 12 months forward for the emerging markets equity trust and 10.8 x 12 months forward for the index.

The representatives of T. Rowe Price left the Board meeting.

3. Discussion of options relative to investment of assets for the Death and Disability Funds and possible action

Ms. Sandra Willen, Managing Director of Client Services and Mr. George Matthews, Senior Relationship Manager of Client Services from Wells Capital Management approached the Board table. President Romero recognized the representatives of Wells Capital.

President Romero introduced item 3, stating a couple of weeks ago the Retirement Board had a rather interesting discussion. He expressed he was glad Wells was able to attend today's Board meeting to discuss their position of why the portfolio is invested in certain assets and where things stand.

Ms. Willen thanked the Board for the opportunity to be present and apologized for not attending the Board meeting held two weeks prior. She expressed it would be very helpful to take a minute and talk to the Board about how Wells came to the decision to hold unregistered Rule 144A securities in the fund and why they were making this particular recommendation for the Retirement Plan. Ms. Willen stated the reason is because the change in the market has influenced how Wells manages portfolios. She added Wells feels it is part of their fiduciary responsibility to bring it to their client's attention when there are changes in the marketplace that create opportunities to better

diversify portfolios and reduce the overall risk and the Rule 144A securities really fit into this.

Ms. Willen indicated she wanted to discuss how Wells looks at Rule 144A securities, which is exactly the same way the firm look at all securities selected for WPERP's portfolio. She stated Marie Chandoa (Wells Co-Head and Sr. Portfolio Manager with Montgomery Fixed Income) who attended the December Retirement Board meeting discussed how Wells is a bottom up security selection. She explained that Wells also depends on the relative value of securities when generating excess return. Therefore, for Well's investment process, liquidity, marketability, and full financial disclosure are all key. She added that this does not change when looking at a Rule 144A security. Ms. Willen emphasized that first and foremost they must be liquid and actively traded as is every bond Wells buys for the portfolio, have enough financial disclosure to perform the fundamental research that is done on the securities, and every company is researched very well. All of this is exactly the same for the Rule 144A securities. In addition, they need to be actively quoted by broker dealers and priced by third party pricing services. President Romero inquired if this was regardless of whether the 144A securities are registered or unregistered. Ms. Willen responded in the affirmative, adding it was also regardless of them being Rule 144As or any bond. She commented what is particularly interesting is why this particular market has increased. Ms. Willen explained that in 1998 the Rule 144A securities represented approximately 7% of the credit index of the Lehman Aggregate and now represents over 16%, which is a lot of growth in a small number of years. She added it was very economical for companies to issue these securities and save costs. Ms. Willen indicated that Wells is finding that many of the names of companies issuing Rule144A securities also issue registered bonds. She gave an example of Heinz which has some Rule 144A bonds, regular registered bonds, and other Rule 144As without registration rights. Ms. Willen reported Wells currently has 1% invested in their client's portfolios that allow Rule 144A without registered rights and a total of 2.75% of the portfolio in Rule 144A with and without rights. She stated the Board might be interested to know that out of the five different holdings, two are asset backed securities (AAA rated), one is a commercial mortgage backed security (AAA rated), one is a sovereign debt, and two are corporate debt.

Mr. Vazquez noted that Ms. Willen mentioned Heinz has some registered, unregistered and other bonds. He then inquired if they were all in parity in terms of the credit structure. Ms. Willen responded in the affirmative. Mr. Vazquez inquired if they were subordinate to any of their other outstanding debt obligations. Ms. Willen responded in the negative, stating they were on par.

Mr. Moore inquired about the ratings. Ms. Willen responded that the ratings were about the same. She stated with regards to Heinz, all of their outstanding debt is rated "A" by both Moody's and S & P. She added the credit worthiness of a company is not the issue with regards to Rule 144A. Mr. Moore commented that the impression he had based on the information PCA provided the Board with several weeks ago was that Rule 144A Securities were not liquid and Rule 144A Securities were not rated. Consequently, it was really questionable as to what you were getting. What we are now hearing from Wells is that Rule 144A Securities are liquid, these are the criteria we use in selecting them, and Rule 144A securities carry the same rating basically as the issuing institution because they are not subordinated debt. Mr. Moore then inquired about PCA's reaction

to this. Mr. Rue responded he agrees with Wells Capital on that because the bonds are not all below investment grade rated. He added 144As without registration rights can have a variety of degrees of rating, so they could be AAA rated. Mr. Moore inquired if the change Wells is making in their guidelines requires them to adhere to the high credit rating/reasonable liquidity standard. Ms. Willen responded that Wells' investment process requires them to stick to the standard. She expressed this is the blueprint Wells goes by to manage all of the money they manage in this sector. In other words, these are the Montgomery fixed income team's guidelines in terms of how they manage, and it applies to the fund and all the separately managed accounts, including WPERP's account. Mr. Moore inquired if the wording of the guideline changes Wells is requesting of the Board will provide assurance (with regard to the standard of investments) or can the wording be changed to incorporate more specific guidelines. Ms. Willen responded in the affirmative, stating this is how the 144As would be invested and Wells would be happy to have that language incorporated within the text of the guidelines.

Mr. Moore inquired if PCA would be relatively comfortable with the aforementioned approach. Mr. Rue responded the issue is that there were commingled fund guidelines brought forth by staff that this was an issue, and there was potential that there could be 10% of the entire portfolio invested in 144As without registration rights. He expressed this was a lot because if a corporate sector is 20% to 25%, then based on the guideline language 50% (of the portfolio) could be invested in 144As without registration rights, which is where the discomfort comes from. Mr. Rue explained that despite the fact 144As with registration rights make up 15% of the corporate investment grade market, there is the potential that these unregistered securities could be an even larger proportion. He expressed he was completely comfortable with the 1% level Wells operates under, but that is not a guideline. He also stated he was completely comfortable with the operating level that they have in the portfolio and the efforts they made in terms of the side letter they put together. Mr. Rue indicated there were some differences between staff and his comfort level with the language, which was discussed with Wells and they stated they were happy to incorporate staff's suggestions of removing some language to make the letter's tone stronger. He added Wells Capital clearly understands where the Department as a client sits in terms of bifurcating out 144As with and without registration rights.

Commissioner Hogan-Rowles thanked Wells for attending the meeting and expressed her discomfort. She stated her discomfort is due to her concern that the WPERP's basic policy does not want to be invested in 144As without registration rights. She inquired if it were not a big leap between registered and unregistered then why would the SEC have different levels. Also, if there was not a big deal about it why would we have a policy in place. Commissioner Hogan-Rowles requested Wells address why they feel it is okay for the WPERP's money be invested in something the policy is against. Mr. Rue responded the Board should keep in mind that the Plan's policy does allow investment in 144As without registration rights in the high yield sector. He explained there is a policy on the books that says 25% of the high yield portfolios can be invested in those securities. He reminded the Board that the guidelines the Board passed originally for this fund allowed 5% of the portfolio to be invested in the high yield market. He stated 5% of the portfolio can be invested in the high yield market based on the commingled fund guidelines that were originally adopted for the Death and Disability Plan. Mr. Rue further stated, for consistency's sake, one would allow some small proportion on the 5%

allocation would be unregistered 144As. He recommended there be some allowance of some degree of 144As within the commingled fund because the high yield segment was already approved and the level could be discussed. Commissioner Hogan-Rowles commented that the phrase, "should be some" is very different than what it is right now, and there is also the difference between high yield and core fixed income.

Commissioner Hogan Rowles inquired what staff's concerns are regarding this issue. Ms. Bhatia responded when the Death and Disability Funds was invested in the commingled strategy (core domestic fixed income) their guidelines did allow 5% in below investment grade securities already. In addition, she agrees with Mr. Rue as far as the discomfort level going forward because of the potential of increasing this investment up to 10%. She clarified this was the change Wells Capital is requesting despite the side letter, even though the side letter states they will give notification if they are to exceed 2%. Ms. Bhatia conveyed staff's concerns that Wells already has a 5% leeway under permitted investments, and the change in the investments requested is up to 10% in 144A securities without registration rights. Consequently, this would increase the WPERP's exposure even more in going forward. She stated if the Board is comfortable in making a change in the guideline, then a strong side letter should be expected. She suggested the Board keep in mind that the exposure of the Plan goes up substantially with this change and up to actually 15%. Commissioner Hogan-Rowles inquired even if Wells did not get to the 15% would the exposure still be increased to at least 10%. Ms. Willen responded that the 10% is a number that is inclusive of all Rule 144As with and without registration rights as a result of the change.

Commissioner Hogan-Rowles inquired about the purpose of the side letter. Mr. Matthews responded that the side letter will give the Board and staff prior notification of Well's intent to go above 2%. He explained it also gives the Board the understanding that Wells will be managing this portfolio limiting until we were to notify the Department that we are considering going above 2%. He added the reason Wells leaves that open is because the market could change. Ms. Willen stated staff and Attorney Wilkinson suggested that instead of having 2% and Wells informing the Board prior to making a change, the language should just instead state that we will limit it to 2%. She indicated she spoke with Wells' legal counsel and investment team regarding this issue and they were willing to accept that language in the side letter. The side letter would basically state in this fund you are invested in, we would hold the investment in Rule 144A securities without registration right to 2% maximum.

Commissioner Hogan-Rowles reiterated her question of why would the Board want to do this if the original agreement was something else. Ms. Willen provided the Commissioner with a history of events by explaining that the guidelines for the active fixed income is silent on Rule 144A, meaning there is no language. She stated when Wells first read the guidelines they went back to staff and inquired about their position on Rule 144A and if they were allowed in the portfolio with or without registration rights. The communication was that staff and the Board would be more comfortable with Rule 144A with registration rights. Mr. Abarro concurred with Ms. Willen's recollection of events. He stated staff researched the difference between with and without registration rights and staff was and still remains uncomfortable on 144A securities without registration rights. Ms. Willen commented that the difference is a realization that the marketplace has changed. She expressed that she appreciates the concern because in

the big, scary world of Rule 144A private placement without registration rights there can be some very scary type of things. She stated this is why the Board has hired and entrusted Wells with the management of these funds and part of that is the research and expertise the firm brings. Ms. Willen indicated she spoke at length with Ms. Marie Chandoha (Wells/Montgomery Fixed Income) and there are so many Rule 144A securities without registration rights that Wells will not even look at because they do not fit with their criteria. She stated the difference is that the marketplace has changed, there is a lot more opportunity in investment grade securities in this part of the market, and Wells felt they had a fiduciary responsibility to bring this to the clients attention. Mr. Abarro commented that Wells looks at liquidity and credit quality regardless of the type of bond. However, the risk associated with Rule 144A securities without registration rights are apart from credit quality or ratings. He conveyed staff's concerns regarding the lack of legal protection. Mr. Abarro expressed it does not eliminate the risk associated with Rule 144A securities without registration rights regardless of how efficient one is in determining credit quality or liquidity. Ms. Willen inquired if limiting the exposure to 2% helps with the concerns, staff and the Board has on risk of the securities. Mr. Abarro responded that it would help but he is still uncomfortable with it. However, if the Board decides to go with it then that is fine.

Mr. Vazquez inquired what was lacking in this from a legal standpoint in terms of our ability to collect on it or for it to pay off versus a registered security. Mr. Abarro responded the legal aspect of it is that the courts will not provide adequate protection if one knowingly purchases Rule 144A securities without registration rights. He stated it is like "buyers beware". The information provided has not been reviewed by the SEC so if you buy it anyway you take the loss. Ms. Bhatia commented that those issues were not subject to disclosure requirements. Mr. Vazquez expressed, from his understanding, if something happened with Heinz, for example, the Plan would be on equal footing before a court of law with any registered security they have out there. Ms. Willen responded this was correct.

Mr. Vazquez inquired, regarding Well's criteria, did they have any criteria on investment graded security the firm might hold. He also inquired if these 144As unregistered could not be rated. Mr. Rue responded that potentially they could be unrated. Mr. Matthews responded that Well's overall guidelines would prevent them from purchasing an unrated security. Mr. Vazquez inquired if there was a minimum credit rating for the type of securities being discussed. Ms. Willen responded the minimum credit rating for clients whose guidelines allow only investment grade would be investment grade. For those clients and for the fund that allow up to 5% and below investment grade up to 5% there could be a minimum. But that is completely dependent on the client's overall guidelines. She stated in WPERP's case the guidelines for the Retirement fund state only investment grade. Mr. Rue commented there is a 5% allowance in high yield and those securities can be below investment grade. Within that 5% one of those below investment grade holdings could be a 144A security without registration rights. Consequently, one could have a 144A without registration rights that is below investment grade in their portfolio. Mr. Vazquez stated he was confused because it is being said that the WPREP's investment guidelines do not allow for below investment grade, yet we are in a commingled portfolio that does allow it. He then inquired if this was outside the general policy guidelines. Ms. Bhatia responded this was a commingled fund, and when reviewed, those were the guidelines the Board agreed to adopt. She

stated there was a 5% exposure and we knew about it, but this only pertains to the Death and Disability Fund.

Mr. Moore stated he was more comfortable with it now, given the 2% limit Wells is willing to accept with respect to the staff side letter. Mr. Moore noted the Board is now hearing there is focus on liquidity and rating as a standard that Wells is willing to incorporate in a side letter. He then inquired if Mr. Vazquez was comfortable with this given his financial background. Mr. Vazquez inquired of PCA, given the risky securities being discussed, could any of those meet these criteria. He also inquired if people are going to quote these or are they going to be priced by third party services, is the research going to be there, and are they liquid enough to be traded. Mr. Rue responded that on a high yield front he would assume that for a high yield security or for a below investment grade security, just like an investment grade security, they all have to meet these particular criteria with the exception the rating might be different. He stated in answering the latter question, Wells Capital is doing everything in their power outside of revising the commingled fund guidelines. Mr. Rue explained that through Wells' side letter they are, in his view, accepting staff's recommendations for changing the language and potentially the Board's recommendations as well. He indicated Wells is doing everything they can to limit the risk of these particular types of securities to 2% to where, at that level, that should not have a significant influence on the risk of the overall \$65 million portfolio. Mr. Vazquez indicated the side letter is telling the Board Wells is not going to just "let them know when they are going up 2%", they are going to "limit it to 2%", and that seems to be at odds with the change made in the portfolio to go to 10%. Ms. Willen responded that 10% is inclusive with registration rights and the 2% is specific to without registration rights. She reiterated that right now we are at 1%, but in the foreseeable future Wells does not see going above 2%. Mr. Vazquez inquired if Wells could go above 2% under their current guidelines. Ms. Willen explained that on the guidelines Wells could go up to 10% in total and the side letter puts a new constraint of 2%. Ms. Calvache inquired how changing the guidelines to the side letter to 2% would affect the Plan with regards to risk. Ms. Willen responded in making the change in the commingled vehicle Wells did not perceive that this was adding to the risk level of the fund given the percent that would be invested. She stated what the 2% does is limit the exposure to the securities.

Commissioner Hogan-Rowles expressed she was still concerned that the Retirement Office staff researched this issue and feels it is not a good idea. However, if the Board wants to do it then that is their decision. She then inquired what the outcome is in looking at Option 2 (transitioning the assets to another investment vehicle), how much it would cost, and what would be the difference in return, if any. Mr. Matthews responded that the other commingled vehicle Wells Capital has is called the Wells Fargo Intermediate Term Bond Fund and its benchmark is slightly shorter in duration, which is the Lehman A or Better Index. He stated the securities in that index are a subset of the Lehman Aggregate (but it is a shorter subset), and have maturity ranges from one year to ten years. Mr. Matthews explained that the maturity ranges for the Lehman Aggregate is one year all the way up to 30 years, and the duration of the portfolio or the index is one year shorter, which is one of the risk factors. He indicated the types of securities Wells is buying are slightly higher in credit quality and it is limited to A or better securities. The average credit quality is the same as the current portfolio the Plan is invested in. In terms of the 144A issue, that portfolio also allows up to 10% in 144As,

but only those with registration rights; it does not allow the purchase of 144As without registration rights.

President Romero pointed out that the Intermediate Fund return was 2.70%, the Montgomery Core return was 4.28%. The potential transition costs are \$97,500 and this is just an estimate. He expressed from a personal level he is a little bit alarmed. But after hearing the information, he is sensitive with staff and the Commissioner's point of view, and after learning more from Wells Capital he is comfortable with the 2% limit. He added he was not prepared to exercise a transition cost of \$100,000, and with the difference in the potential return he feels this is something the Board can clearly work with. He expressed he had no concerns and inquired how the rest of the Board feels.

Mr. Vazquez commented he was comfortable with the 2% and he was surprised Wells changed their guidelines or overall portfolio to meet WPERP's needs at 2%.

Mr. Moore requested, as an amendment, Wells accept some of the language and criteria that was passed out with respect to liquidity and investment grade ratings into the side letter. Ms. Willen responded that Wells can incorporate the criteria. She stated, as mentioned before there is still the option that a portion could be below investment grade. However, Wells will make it as clear as they can in incorporating this. Ms. Bhatia requested clarification on which side letter was being referred to. Ms. Willen responded it is the side letter which the Board recommended that limits the exposure to 2%. She stated Wells would also add some language with regards to the criteria for the Rule 144A security. Mr. Rue commented for clarification, Wells would adopt staff's language which strikes the "without notification" on the first clause. Ms. Bhatia clarified the staff side letter limits exposure to 2% as opposed to providing notification when exceeding 2%. Commissioner Hogan-Rowles requested the motion be made subject to staff's approval of the side letter.

Mr. Moore moved the Board adopt Option 1 with the change to the side agreement that Wells has agreed to. Seconded by Mr. Moore and carried after the following vote:

Ayes: Romero, Vazquez and Moore

Nays: Calvache and Hogan-Rowles

President Romero apologized to Wells for having to request the representatives attend the Board meeting. Ms. Willen in turn apologized for not attending the previous meeting to address the Board's concerns. She also thanked staff and PCA for the enormous amount of work they contributed. She added that Wells would keep the Board informed.

Mr. Vazquez commented that one of the reasons he chose Option 1 was because selecting Option 2 would have changed the asset allocation of the portfolio.

4. Proxy Information – providers, organizations

Mr. Moore inquired about the status of the Request for Information (RFI) for a proxy service provider. Ms. Bhatia responded that staff would be submitting the RFI at the March 15, 2006 Board meeting.

Mr. Moore moved approval of resolution 06-46. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Nays: None

President Romero commented that some of the Board members would be attending a conference at the end of the month, and it would be a good opportunity for the Board members to see what Institutional Investors is doing and start networking with other trustees to find out about the process, the downfalls, and how to improve on the process.

President Romero inquired what type of research a proxy service provides for a corporation. Ms. Bhatia responded research pertains to the securities held, but if there are certain unique stocks or issues on those stocks that need to be researched this would be in addition to the regular fees. She pointed out that the memo, included in the Board package, addressed the range of fees including the research fee. Mr. Abarro commented, in addition, there are some special issues that come up with any company. He then gave an example of a merger issue or an acquisition issue that could be researched by a potential provider.

5. Retirement Plan Manager's Comments

a) Election Guidelines sent to DWP Board of Commissioners

Ms. Bhatia informed the Board that the election guidelines were approved by the Board of Commissioners as well as the City Council. She stated staff would be proceeding with the Notice of Election in accordance with the City Clerk's calendar, which is included in the Board package. Ms. Bhatia reported the notice of election is scheduled to come out on March 6, 2006. Mr. Canzano pointed out that the guidelines included in the package were missing sections 4, 5, 6, 10, 11, and 12, but he does have them now. He inquired if his understanding that the nomination process in a regular election requires that the names on the petition need to be from the appropriate system was correct. He further inquired if the potential candidate, as he/she is gathering signatures, need not be concerned with the signatures of what system those employees are from. Ms. Bhatia responded in the affirmative, adding that, that is how the election guidelines are written. She explained the candidate does not have to get petitions from the system they are running from, which she stated she clarified with the City Clerk's Office. Ms. Calvache commented that in other elections one had to get signatures from the system they were running in. Ms. Bhatia noted that in the guidelines it does not specify petitions specific to a system that the person is running from and there have been no changes to the guidelines in a while.

Mr. Canzano referred to page 5.9 of the agenda package and inquired if the May 1 date on the official ballot should be generic or should it state May 1, 2006. Ms. Bhatia responded the date should be generic. Mr. Canzano noted the example ballot says to

vote for one candidate in each system and there is an allowance for two candidates and a Write-in. He then inquired if there could be more than two candidates for each system and, if so, does the ballot get longer to accommodate that. Ms. Calvache responded that in the past there have been three or four candidates. Ms. Bhatia responded the City Clerk's office develops the ballot that will be mailed out and that she did not have a specific answer.

b) General Items

Ms. Bhatia reported that staff has received seven responses on the RFI for the computer system and will be evaluating them. She informed the Board that the RFI for real estate would be brought before the Board at the March 15, 2006 Board meeting.

Ms. Bhatia informed the Board that the staffing in the Investment Section of the Retirement Office needed to be addressed.

Ms. Bhatia reported that the annual staff review with Mellon Bank was tomorrow.

6. Future agenda items

Mr. Rue reported PCA has been working with staff on the merger issue of Black Rock and Merrill Lynch Investment Managers, which is a big organizational change. Therefore, PCA will come back to the Board and request they be placed on the watch list next month. Attorney Wilkinson commented for procedural sake that this be placed under future agenda items.

President Romero requested PCA address the organizational changes with Bank of New York small cap due to some recent changes that have been made.

Mr. Canzano requested information regarding issues being raised pertaining to additional funds and matching LACERS' way of doing things. Ms. Bhatia responded that staff had previously provided some information to the Board and it could be brought back and inserted in the next Board package again. She stated the information included additional contributions as well as staff's own research.

Mr. Vazquez mentioned, for informational purposes, that he attended a meeting at the City Administrative Officer's (CAO's) office for a presentation that is being put together by Alex Rubalcava. He explained it was pertaining to the state of the pension and post retirement healthcare funds within the City and what the funding levels are. He stated representatives from the finance areas of the City and all the Departments, as well as the City Employee Retirement system and Police and Fire Pensions were there. He further stated the presentation was supposed to be given at the Meeting of the Chamber of Commerce today but was held off in order get the facts and information correct. Mr. Vazquez indicated Mr. Paul Angelo from the Segal Company was present at the meeting, and there was no actuarial input in the report from Alex Rubalcava.

Mr. Vazquez reported the post retirement health care obligations are being funded. The current actuarial liability is about \$1.6 billion and approximately \$400 million has been funded so. However, due to some accounting interpretation it does not make any

economic sense to continue funding on the books. Mr. Vazquez informed the other Board members that he was meeting with Attorney Wilkinson and members of the Department's accounting section to figure out what is necessary to transfer that fund to the Retirement System. He stated this would be better from an economic standpoint in terms of being able to offset it against the liability, and it should be able to at least give the opportunity to improve the returns through a wider array of investments. President Romero inquired if the meetings were open to other Board members. Mr. Vazquez responded that the Mayor has something called a Financial Advisory Cabinet, which consists of the Chief Financial Officer from each of the City agencies as well as the proprietary and certain other people. Consequently, he was invited in that capacity. President Romero inquired if LACERS and Police and Fire Pensions had Board members present at the meeting. Mr. Vazquez responded he did not know why someone from DWP's Retirement Plan Office was not invited. He added that DWP should have been represented because the Segal Company was not at the meeting to represent the DWP, but was there to represent LACERS. President Romero expressed it is important there is representation of the DWP Retirement Board at these meetings. Mr. Vazquez commented that his understanding of this meeting is that the Chief of the Chamber of Commerce wanted to advise the Mayor that he was going to have this presentation made to their group and he is the one who provided the forum for the Mayor to make sure the City was aware of what was going to be presented before it was out there.

Commissioner Hogan-Rowles inquired how the Board could aid in getting the Retirement Office's Investment Section adequately staffed. Ms. Bhatia responded the reason she mentioned the staffing situation is because the Board had promised that at the time the other mandates are funded there would be adequate staffing. Ms. Calvache requested a representative from Human Resources report to the Board at the next meeting to see what is holding up the staffing. President Romero commented that the additional staff had already been approved by the Board. Mr. Canzano requested the Board be given a projected timetable for staffing. Ms. Bhatia responded she has requested and received timetables. Commissioner Hogan-Rowles commented it was unrealistic to ask employees to take on another 25% to 30% workload when they are already probably 10% to 15% below capacity. She added, if needed, she would request this issue be placed on the Commission agenda as well.

The Board meeting was adjourned at 11:38 p.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary

