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

MINUTES – July 19, 2006

Present:

Michael Moore	Retiree Member
Eugene Canzano	Vice-President
Ron Vazquez	Chief Financial Officer
Forescee Hogan-Rowles	Commissioner

Absent:

Ronald Deaton	General Manager
Cindy Coffin	Board Member
Javier Romero	President

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance
Neil Rue	Pension Consulting Alliance
Michael R. Wilkinson	Deputy City Attorney

Chairman Canzano called the meeting to order at 8:58 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

1. **Approval of May 3, 2006 Board Minutes (Special Board Meeting)**

Mr. Moore moved adoption of the above item 1 on consent. Seconded by Commissioner Hogan-Rowles and carried unanimously after the following vote:

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

Nays: None

2. **Termination from Monthly Rolls as of July 2006:**
   Retirement Resolution for July 2006
   Resolution terminating Maryann Touchette from the July 2006 Permanent Disability Roll (reached termination age of 65)
   Resolution terminating Flavia A. Hale and Rita L. Herron from the July 2006

Survivorship Roll as a result of their deaths

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

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

Nays: None

3. **Report of Payment Authorizations as of June 2006**
4. **Notice of Deaths for June 2006**
5. **Report on Status of Insurance as of July 10, 2006**
6. **Summary Investment Returns as of June 30, 2006**
   a) **Market Value of Investment by Fund and Month as of June 30, 2006**
   b) **Market Value of the Retirement, Death & Disability Funds as of June 30, 2006**
   c) **Summary of Investment Returns as of June 30, 2006**

7. **Memo to modify the time period for review/recalculation of Plan Assets Under Management (PAUM) under new insurance provisions adopted by the Board on February 15, 2006**

Mr. Vazquez indicated there was a recommendation regarding Item 7 from the Department's Risk Manager (Avery Neaman) that he would like agendized for the next Board meeting.

Mr. Moore requested that the standards the managers are being held to be included on the summary of investment returns chart as he previously requested.

The received and filed items 3 through 7 were **inadvertently not approved**.

PUBLIC COMMENTS

Ms. Bhatia indicated there was a public comment.

Ms. Marti Barnidge (LADWP employee) approached the podium. Chairman Canzano recognized Ms. Barnidge.

Ms. Barnidge introduced herself as a DWP employee at Truesdale Training Center. She stated she has been employed by the Department for 25 years and prior to this worked for the Los Angeles Unified School District (LAUSD) for approximately 4 years. Ms. Barnidge indicated she delayed purchasing her Other Governmental Service (OGS) and when she completed her OGS paperwork and turned it into the Retirement Office, staff informed her that only 17 months of that time qualified. She explained that when she first began working for LAUSD she was hired under the Comprehensive Employment and Training Act (CETA) program as a clerk typist, and when the CETA program ended she was hired full time as a warehouse worker. But apparently this is the only time that counts as OGS. Ms. Barnidge inquired why the CETA time does not count since she was working full time as a clerk typist during spring and summer breaks from 7:00 a.m. to 3:00 p.m. and during her lunch hour. She requested the Board find out why her CETA time does not count because she heard buy back of CETA time is allowed at other agencies. Ms. Bhatia responded that staff would look into this issue and get back to Ms. Barnidge.

8. Presentations by Small Cap Growth RFP finalists and possible selection of Active Small Cap Growth Manager

a) NorthePointe

Messrs. Sherwin Prior, Equity Analyst and Carl Wilk, Portfolio Manager of NorthePointe Capital approached the Board table. Chairman Canzano recognized the representatives of NorthePointe Capital.

The representatives provided the Board with a presentation of their small cap growth strategy.

Commissioner Hogan-Rowles inquired if all the performance numbers presented in NorthePointe's presentation material are a result of the current portfolio managers. Mr. Wilk responded in the affirmative.

Commissioner Hogan-Rowles inquired if the firm's three and five year performance results were based upon similar account sizes as DWP's ($100 million range). Mr. Wilk responded the firm does not have a five year number yet, but the three year number is correct and all of the accounts are run the same way.

Commissioner Hogan-Rowles inquired who was in place to step in if the lead portfolio manager were to depart the firm and are they responsible for the current performance. Mr. Wilk responded that the firm's contingency plan is that Karl Knas, Co-Portfolio Manager of the small cap growth product, would step in as lead portfolio. He added that all of NorthePointe's team members are ready to step in at any time because their philosophy and discipline is that no one is a sector analyst and everyone is a generalist in order to find the best ideas. Consequently, the team member's interest is to know the portfolio and construction of it very well.

Mr. Moore noted that NorthePointe has grown rather rapidly in the small cap growth mandate in the last few years from 4 or 5 clients to approximately 20 clients. He noted that the money NorthePointe manages has climbed correspondingly. Mr. Moore inquired what problems did the firm see this presenting, since they discussed capping how much they manage, and also what is the likely impact on their performance. Mr. Wilk responded that NorthePointe does not expect any impact. He added that in his previous employment it ran close to $1 billion under style and discipline and he felt very comfortable running that amount of money in an even more illiquid market. He stated, given the current situation, NorthePointe does not concentrate on very large accounts. Therefore, all of their clients are roughly $100 million and below. Mr. Moore inquired how much did NorthePointe have under the small cap growth mandate. Mr. Wilk responded the firm is actively managing $400 million.

Mr. Vazquez inquired what the average market cap of NorthePointe's stock holdings is. Mr. Wilk responded approximately $980 million. Mr. Vazquez inquired about the average number of stocks the firm shoots for. Mr. Wilk responded between 70 and 75 holdings. Mr. Vazquez inquired about the firm's turnover. Mr. Wilk responded the firm has approximately 100% and 130% turnover, but from a name turnover perspective they have about a 70% turnover. Mr. Vazquez inquired if NorthePointe had commingled portfolios or individual portfolios for their clients. Mr. Wilk responded that his firm is focused on the institutional market and does have one retail sub advised agreement. He stated there was also a NorthePointe growth fund, but it is only for smaller institutional accounts under $5 million.

Mr. Vazquez inquired about the firm's guidelines for staying towards the makeup of the index. Mr. Wilk responded that NorthePointe will not go over 150% of the larger portions of the benchmark sectors. However, on the down side they could go to 0. He explained that due to their buy and sell discipline they stay relatively close, and if a sector becomes really hot and overweighted their sell discipline kicks in and automatically starts them trimming back. Mr. Wilk stated historically NorthePointe has never dramatically deviated from the benchmark sectors. Mr. Vazquez inquired what the firm's largest holding is in terms of percentage of the total. Mr. Wilk responded it was currently 1.8%.

Mr. Canzano inquired about NorthePointe's participation with regards to minority and women within their firm. Mr. Wilk responded there is one female partner and a few more minorities and women in the firm.

Mr. Canzano inquired how long the current small cap growth had been together and how does the firm use past performance to predict future performance. Mr. Wilk responded he has been in this business doing the same philosophy and discipline for 20 years. He reported that 90% of the employees at NorthePointe are natives of Michigan and have a reason for being in Michigan. Therefore, the longevity of the organization is because of their families, where they live, and the close knit community. Mr. Wilk stated when the organization started, three individuals were hired to build out the team; therefore, the analyst team is relatively new. He stated Mr. Knas was their first hire and has almost four year's experience followed by Mr. Halverson and Mr. Prior. Mr. Wilk emphasized to the Board to keep in mind that for 20 years it has been the same process and discipline.

Mr. Moore inquired about the firm's history prior to the second quarter of 2002 because the firm does have history for this mandate that goes back during that period and is not being reflected. He added normally the Board is used to seeing whatever the track record has been on a longer-term scale. Mr. Wilk responded that the Securities and Exchange Commission (SEC) and the Associate for Investment Management and Research (AIMR) will not let firms show historical data if it is not assigned to one individual person or team. However, one can document that team and the consistencies of those accounts when the manager joins a new firm. Mr. Moore inquired if this was a new requirement. Mr. Rue responded in the negative. Mr. Wilk added that there is the option of showing those numbers as supplemental data, but NorthePointe chooses to stick to the letter of the law. Mr. Prior added that when Mr. Wilk joined NorthePointe in 2002, the firm did not have a growth platform. Commissioner Hogan-Rowles requested further explanation of the 2002 and 2003 performance. Mr. Wilk responded there was volatility in the marketplace and there was concern about economic recession and the technology crash that occurred from 2000 to 2002. He explained there were a lot of stocks that were under valued, especially on the lower end of the cap scale and in the technology area, but NorthePointe's process led them to those areas. Mr. Wilk reported, due to NorthePointe's quality growth style and downside risk aversion, they did well in the down market in the beginning part of 2002. However, their process was leading them to names that were really attractive so when the market turned in 2003 they were already positioned. He stated the process drives the stock picking and that process has worked not only in up cycles but in down cycles.

Mr. Canzano noted that earlier the representatives mentioned their client size is $100 million and below. He then requested they quantify what the size of their typical investor is. Mr. Wilk responded the average account size is from $30 to $80 million. Mr. Vazquez inquired what the firm's largest account is. Mr. Wilk responded $80 million.

The representatives of NorthePointe Capital left the meeting.

b) Paradigm

Messrs. James Francis, President and Chief Executive Officer and Gregory Pai, Managing Director of Paradigm Asset Management Co. LLC approached the Board table. Chairman Canzano recognized the representatives of Paradigm.

The representatives provided the Board with a presentation of their small cap growth strategy.

Commissioner Hogan-Rowles inquired if all the performance numbers presented are a result of the current portfolio managers. Mr. Francis responded in the affirmative.

Commissioner Hogan-Rowles inquired if the firm's three and five-year performance results are based upon similar account sizes as DWP's ($100 million range). Mr. Pai responded that the composites are all inclusive. Consequently, the numbers the Board has reviewed are the results of the composite and is essentially the model portfolio. Commissioner Hogan-Rowles noted the representatives mentioned that their average client account size is approximately $200 million. Mr. Pai responded that their largest small growth account is $260 million. Mr. Francis clarified Commissioner Hogan-Rowles' question to be, has Paradigm's numbers included an account the size of DWP's. He then stated that Paradigm has several accounts of that type of magnitude and has always had a substantial amount of money in the portfolio and certainly over the past five years.

Commissioner Hogan-Rowles inquired who was in place to step in if the lead portfolio manager were to depart the firm and are they responsible for the current performance. Mr. Francis responded that any one of the team members would be capable of running the firm's process from top to bottom. He stated because Paradigm has such a welldocumented process, they would also be able to fully bring someone up to speed. Mr. Francis explained that the firm's process does not depend upon a person, because their process is void of any emotional or judgmental overlay.

Commissioner Hogan-Rowles noted that Paradigm has been in place for 15 years. She then inquired if the representatives had been there since its inception. Mr. Pai responded in the affirmative, adding that he has worked with Mr. Francis since before that time. Commissioner Hogan-Rowles noted the representatives mentioned that they themselves would come before the Board and present if their firm was chosen to manage the portfolio. She then inquired if this meant they would also manage the account in-house and not hand the account off. Mr. Francis responded that Paradigm handles all portfolios as a team, but the Board will have consistent access to himself and Mr. Pai.

Mr. Moore referred to a chart reflecting Paradigm's small growth profile on page 14 of their presentation material and noted they show their information ratio at 0.22 and sharpe ratio at 0.06, which would appear low in both cases. He then requested the representatives provide an explanation for this. Mr. Francis responded that those numbers are as of March 31, 2006, and is based upon a three year time period, which includes 2003, the only year of any significant underperformance. He stated in any year before or prior, Paradigm has had the strongest information ratio, absent one of the firms that has a much shorter track record.

Mr. Moore stated, based upon calculations made by PCA, it suggests that in 2003 and 2004 there appears to be style drift wherein Paradigm had a fair amount of small value stock in the portfolio and a fair chunk of mid-growth. He then requested the representatives explain this. Mr. Francis responded that this information was based on a return analysis and not holdings. He explained it was based upon a regression of their performance relative to benchmarks. Mr. Francis further explained that over the last several years the substyle within small cap growth, that has been in favor, has had a decidedly conservative tilt to it, and a manager that has had that type of exposure on a returns basis, value has done better. He expressed this analysis is not perfect and is going to give credit where the performance has been, but should actually reflect the strength of Paradigm's product and that they are able to track the sweet spot of the small cap growth style within a very tight risk or style box. Mr. Rue commented that Paradigm's process is quite different from other managers because they get their data from the SEC on a regular basis, analyze the best-of-breed small cap growth manager's portfolios, and assemble it to build an ideal portfolio.

Mr. Vazquez inquired what the total size of Paradigm's small cap growth mandate is. Mr. Francis responded approximately $600 million. Mr. Vazquez inquired if the firm had any cap as to how far that will go. Mr. Francis responded there was $2 billion capacity but they would close it at $1.5 billion, talk to all of their clients and give a reserve period in case they need additional allocation. Mr. Vazquez noted there were 200 stocks in the portfolio and inquired if that was generally what they keep. Mr. Francis responded they always have 200 stocks. Mr. Vazquez inquired if the firm had any guidelines or parameters in terms of deviance from the benchmark sectors. Mr. Francis responded the firm holds 200 securities to diversify the stock specific risk out of the portfolio. He stated Paradigm's research shows that in a diversified portfolio, 90% to 97% of the return is from the characteristics and only 3% to 10% comes from stock selection. Mr. Vazquez inquired about Paradigm's total number of clients in this mandate. Mr. Pai responded 10. Mr. Vazquez inquired if they were all separate portfolios and all exactly the same. Mr. Francis responded in the affirmative, adding they were all built on a model portfolio. Mr. Vazquez inquired what the average turnover of the portfolio was. Mr. Pai responded 80% to 100%.

Mr. Canzano noted that from the representative presentations it is evident Paradigm has women and minority participation. He then inquired if they would like to add anything else in this regard. Mr. Francis responded by Paradigm being an employee-owned firm they would certainly qualify as a minority-owned firm.

Mr. Canzano requested the representatives briefly discuss how much the portfolio is run by the team. Mr. Francis responded that in Paradigm there is no one individual that has more say so and all decisions are made as a team.

The representatives of Paradigm left the meeting.

Chairman Canzano called for a recess at 10:22 a.m.

The Board meeting reconvened at 10:40 a.m.

c) RCM

Mr. Kurt Moeller, Assistant Portfolio Manager; Mr. Jeffrey Stabler, Director; and Ms. Anne Heaphy, Relationship Manager of RCM approached the Board table. Chairman Canzano recognized the representatives of RCM.

The representatives provided the Board with a presentation of their small cap growth strategy.

Mr. Vazquez noted RCM has $1 billion in their small cap growth portfolio and inquired if they had a cap. Mr. Stable responded there is a cap and essentially the Chief Investment Officer (CIO), Tom Ross, has the responsibility and authority to close it at any time he thinks accepting new assets would compromise the team's ability to generate performance. He added the team is compensated on performance and not asset growth, and the target, based on today's liquidity, is $2.5 billion. But this could change if liquidity starts to dry up.

Commissioner Hogan-Rowles inquired if all the performance numbers presented are a result of the current portfolio managers. Mr. Stabler responded there was a team change and Tom Ross was chosen as a new portfolio manager due to some performance bumps and became CIO in 2002. He stated Mr. Moeller has been with the team since 2002, and Ms. Laufersweiler joined the team in 2003.

Commissioner Hogan-Rowles inquired if the firm's three and five-year performance results are based upon similar account sizes as DWP's ($100 million range). Mr. Stabler responded in the affirmative and added that RCM has an arm's length quantitative analytics group that keeps the integrity of the composite data. He stated since the data has been submitted to the Board the firm has won a new $400 million account. Commissioner Hogan-Rowles inquired what the firm's largest account in this mandate is. Mr. Moeller responded the $400 million account.

Commissioner Hogan-Rowles inquired who was in place to step in if the lead portfolio manager was to depart the firm, and are they responsible for the current performance. Mr. Stabler responded that Deputy CIO, Louise Laufersweiler, would be first on the succession planning list and she is clearly experienced, capable, and has been working with the team since 2003.

Mr. Moore noted that RCM goes light on technology and healthcare and requested the representatives speak to this. Mr. Moeller responded the firm feels there are growth companies in any industry. He conveyed Mr. Ross's view on technology is that it is much easier to find the high quality consumer company, then a high quality small cap technology company because with technology, the scale of the business lends itself to getting big quickly. Mr. Moeller stated once a company expands it tends to dominate and get out of the small cap space. He indicated RCM has had more success with companies like the Cheesecake Factories of the world that grow consistently year after year. He added that RCM outperformed in 2003 with this same underweight intact.

Mr. Moore inquired about RCM's apparent style drift that was reflected in a graph prepared by PCA showing the firm has had a fair amount of small value, mid-growth, and mid-value in the portfolio based upon their assessment. Mr. Stabler responded there are a lot of measurement tools and RCM utilizes their arm's length quantitative analytics team to ensure they are staying true to their style. He stated the team sits down with the firm's CIO every month asking questions to see if the style drift is a real issue. He added the team then goes back and re-examines it. Mr. Stabler explained that due to their tracking error, market cap range, and different factor analysis he feels strongly that they are consistently small cap growth. However, at any point and time one or two statistics can show something based on the types of stocks we hold at the time.

Mr. Vazquez inquired if RCM has a cap on the percentage for the firm's largest holding. Mr. Moeller responded that typically it would not be above 3%, and once it reached 3% the stock would be trimmed.

Mr. Vazquez inquired what has happened in the number of RCM's clients and accounts. Mr. Stabler responded that RCM had a fairly large client base in the late 1990's and through some disappointing performances in 1999, 2000, and 2001, the firm lost quite a bit when they changed leadership. However, in the last year they have seen a lot more activity and interest in winning accounts. Mr. Vazquez noted the representatives mentioned they just picked up a new $400 million account. He then inquired if this brought the firm up to the $1 billion area. Mr. Stabler responded in the affirmative Mr. Vazquez inquired if RCM had any guidelines or parameters on how far they can deviate from benchmark sectors in terms of industries and weightings. Mr. Stabler responded that broadly, as a bottoms-up firm, they do not want to put too rigid of guidelines and often in RFPs the firm will say + or – 10 percentage points around whatever the sector is. However, in practice they are much closer to that and are + or – 10 percentage points to any industry. He explained that if anything is 0% to 5% in the benchmark they may not have any representation there; if it is greater than 5% they may have some, and in the larger ones they will probably be + or – 5 to 700 unless the fundamentals dictate staying away from something.

Mr. Vazquez inquired if it was typical for RCM to have more than 5% in cash. Mr. Moeller responded this was not typical and the reason for the excess in cash is that a particular customer was doing some rebalancing between asset classes.

Mr. Vazquez inquired if RCM had commingled portfolios or separate accounts. Mr. Stabler responded the firm has mostly separate accounts and also a mutual fund for smaller accounts. Mr. Vazquez inquired if they were all managed exactly the same way. Mr. Stabler responded RCM does have a slightly higher growth product as well. He explained they are both small cap growth products, but the mutual fund has higher tolerance for price to earnings and faster earnings per share growth rates. Mr. Vazquez inquired if it was typical for the firm to have 100 stocks in this particular mandate. Mr. Moeller responded in the affirmative. Mr. Vazquez inquired what the turnover was. Mr. Stabler responded the turnover has ranged from approximately 75% to 120%. He indicated in looking back through the calendar years it peaked at 155 during the year Mr. Ross took over because he had a lot of repositioning to do.

Mr. Canzano inquired about RCM's participation with regards to women and minorities within their firm. Ms. Heaphy responded that RCM is an equal opportunity employer. She stated, as far as their senior staff, minorities constitute 23% (1% African American, Asian 17%, and Latino- Hispanic 5%). She added that the percentage of senior staff members that are women is 24%.

The representatives of RCM left the meeting.

d) Nicholas Applegate

Messrs. Horacio Valeiras, Managing Director; John McCraw, Managing Director; and Ranjit Sufi, Managing Director of Nicholas Applegate approached the Board table. Chairman Canzano recognized the representatives of Nicholas Applegate.

The representatives provided the Board with a presentation of their small cap growth strategy.

Commissioner Hogan-Rowles inquired if all the performance numbers presented are a result of the current portfolio managers. Mr. McCraw responded that his tenure of running this particular product is from 1996 through the current period. He stated he has been with Nicholas Applegate since 1992, but the product was founded in 1984. However, the numbers in the firm's presentation material reflect the track record of the current portfolio managers.

Commissioner Hogan-Rowles inquired if the firm's three and five-year performance-results were based upon similar account sizes as DWP's ($100 million range). Mr. McCraw responded in the affirmative.

Commissioner Hogan-Rowles inquired who was in place to step in if the lead portfolio manager were to depart from the firm and are they responsible for the current performance. Mr. McCraw responded that Mr. Travis Prentice would be the individual to step up and he has tenure of ten years at the firm and on this product. He added that Mr. Prentice currently has portfolio management responsibilities.

Commissioner Hogan-Rowles inquired if Nicholas Applegate was a separately owned company or owned by a larger company. Mr. Valeiras responded the firm was bought by Allianz Global Investors (a German insurance company) in 2001. He also mentioned the firm is working on structuring an equity ownership plan this year which would give part of Nicholas Applegate's ownership back to Nicholas Applegate employees. Commissioner Hogan-Rowles inquired if the original founders, Fred Applegate and Art Nicholas, were still with the firm. Mr. Valeiras responded that Mr. Applegate left the firm in 1992 and Mr. Nicholas retired after the sale of the firm in 2003.

Mr. Moore noted that the firm was heavy in industrials and light in healthcare and requested an explanation. Mr. McCraw responded that approximately eight months ago they started discovering companies like J. Jill, Jones LaSalle, and a tightening in the commercial real estate market, which led them down a path of looking at some construction names and into a lot of areas such as industrial construction. He stated the health care arena has been a very difficult area and it has been tough to find quality small cap names.

Mr. Vazquez inquired about the average number of stocks the firms hold in the small cap growth mandate. Mr. McCraw responded 160. Mr. Vazquez inquired what the turnover is. Mr. McCraw responded that last year it was approximately 135% and it is currently 120% to 125%. Mr. Vazquez inquired what the size of their largest client is currently. Mr. MCraw responded their largest client is approximately $220 million.

Mr. Vazquez referred to page 20 of Nicholas Applegate's presentation booklet, noting the representatives stated they had just reopened this mandate to additional clients and currently have a target of $1 billion. He also noted the firm was now up to $3.7 billion in 1999 and he assumes their returns drove away all of their clients over that period of time. Mr. Vazquez inquired what has changed in the firm's investment philosophy or process that would keep this from occurring again. Mr. Valeiras responded the firm learned some lessons from the high asset level and this is one of the reasons they want to close it at some where around $1 billion. He indicated he has been the CIO at Nicholas Applegate since 2002, and they have taken a very disciplined approach to capacity. For example, they closed their small cap value product at about $600 million in assets because that is where the portfolio manager felt the team could continue to deliver outperformance. He added that Mr. McCraw did a lot of research to reach the $1 billion number. Mr. Valeiras reported that 1999 was a very good performance year for the firm, but they lost a bunch of assets due to rebalancing away because of the success of 1999. He stated in 2000 they outperformed the benchmark but the markets went down. At the end of late 2000 they announced the sale of the firm and the restructuring of other investment teams, which led to some instability and client loss. Mr. Valeiras expressed the performance in 2001 was a difficult year and was probably the firm's toughest year. However, in 2002 they were close to being in line with the benchmark. He stated the performance combined with some of the firm issues on the restructuring is probably what led to most of the outflows. Currently, the firm has a very strong discipline on capacity across all of their products. He stated the firm has taken the approach that we will close these products and will accept no more flows except from existing clients if the portfolio manager accepts them.

Mr. Canzano inquired about Nicholas Applegate's participation with regards to women and minorities within their firm. Mr. Valeiras responded that his firm has a number of minority/women owned businesses that they do business with, primarily in the service area of marketing and vendors. He reported the firm is 40% female with a very diverse culture and is very supportive of the local community.

Mr. Canzano informed the representatives that the Department has been given a directive from Mayor Villaraigosa to look into investments in Darfur. He then inquired how Nicholas Applegate can address this very serious and sensitive issue. Mr. Valeiras responded that the firm does not have any direct investments in Darfur across any of their products. He stated, as far as companies that are involved, it is not something they can systematically say they look at. Mr. Canzano noted the representatives mentioned they were globally invested. Mr. Sufi stated that on the international growth side they manage money for CALSTRS and have received directives from them with regards to investment and account restrictions, such as tobacco and investing in certain countries. He further stated when a client requests certain restrictions it is incorporated into the firm's process. Commissioner Hogan-Rowles inquired how the restrictions have impacted the performance of their client's portfolio. Mr. Sufi responded it has been random – sometimes positive and sometimes negative. He stated recently, with tobacco doing well, it has hurt performance but only by 10 to 20 basis points. He added since DWP's portfolio contains 160 stocks there would not be a big impact because it is diffused across a large number of stocks.

The representatives of Nicholas Applegate left the Board meeting.

e) The Boston Company

Messrs. Robert Harkins, Vice President of New Business Development; Lawrence Ivey, Vice President and Senior Relationship Manager; Randall Watts, Senior Vice President Portfolio Manager and Charles Vaughn, Senior Vice President of The Boston Company approached the Board table. Chairman Canzano recognized the representatives of The Boston Company.

The representatives provided the Board with a presentation of their small cap growth strategy.

Mr. Vazquez noted that Mr. Watts mentioned Mr. Zeuthen, Mr. Trafton, and Mr. Latner just recently joined The Boston Company's small cap growth equity investment team. He then inquired if they were replacing other employees. Mr. Watts explained that the added employees were to expand the team and not to replace anyone. Commissioner Hogan-Rowles inquired how long the current team had been together prior to the additional employees. Mr. Watts responded five years.

Mr. Vazquez inquired what the life of the product is. Mr. Watts responded he started in the middle of 2001. Mr. Vazquez inquired if Mr. Watts was involved with small cap growth before that time. Mr. Vaughn responded that the performance in the book is generated by the team Mr. Watts has headed from the very beginning. Mr. Watts added that the $250 million in assets was already in place when he arrived.

Commissioner Hogan-Rowles inquired if all the performance numbers presented are a result of the current portfolio managers. Mr. Watts responded in the affirmative.

Commissioner Hogan-Rowles inquired if the firm's three and five-year performance-results were based upon similar account sizes as DWP's ($100 million range). Mr. Watts responded that the firm's biggest client is the State of Pennsylvania and their account is approximately $130 million. Mr. Vaughn added that they have another client that is $120 million. Mr. Watts commented that both clients have been with the firm since the product's inception.

Commissioner Hogan-Rowles inquired who was in place to step in if the lead portfolio manager were to depart the firm and are they responsible for the current performance. Mr. Watts responded that Mr. Wakefield would be number two in charge of the portfolio. He expressed that he felt comfortable that everyone on the team could be a portfolio manager if necessary.

Mr. Moore noted that a chart prepared by PCA reflects a style drift in the 2003/2004 period classified as small value and also mid-value. He requested the representatives explain this. Mr. Watts explained that the market rebalances itself dramatically in small cap growth and every year the index changes about 30% of the names. Also, the benchmark everyone uses changes its definition of growth frequently. He explained that the way Boston Company defines growth is a company that can grow its revenues, earnings, and cash a lot faster than the market over the next three years. Mr. Watts indicated there was another chart, which the representatives did not bring, reflecting the volatility of Boston's returns versus the market and it shows they are always less volatile and have less valuation. He explained what is systemic, with regards to Boston's product, is that for a growth manager they have more of a value tilt. Mr. Watt's further explained that Boston Company feels they are still in the style box, but they are looking for companies inside that universe they think are attractive on a price range to growth ratio.

Mr. Moore expressed that with most of the Boston Company funds there is particular emphasis on controlling risk, and the firm is the lowest risk profile compared to the other firms the Board is looking at. However, Boston is also is the lowest in terms of actual returns. He then requested the representatives provide an explanation regarding the firm's position in the market, particularly given the changes Mr. Watts talked about. Mr. Watts expressed that Boston Company feels they are competitive with their peer groups, being 16 for 3. He stated the firm is very controlled on the risk and believes they should be able to deliver 200 to 500 basis points of alpha a year for the client base on a gross basis. Mr. Watts pointed out, when looking at Boston's performance, one can see that the firm's annualized return has been 270 basis points over 5 years; therefore, it has definitely been profitable to invest with them. He stated the final point is the firm does invest a little bit for the rainy day and preservation of capital is a major emphasis of the product.

Mr. Vazquez inquired what number of stocks Boston Company holds in the small cap growth equity mandate. Mr. Watts responded 140 stocks. Mr. Vazquez inquired if the firm has commingled funds versus separately managed funds. Mr. Watts responded that $600 million of the $1.1 billion number quoted in assets during their presentation is mutual funds. He added, out of the $600 million, $200 million of it is institutional based and $4 million is more retailed based. Mr. Vazquez inquired about the average turnover in the portfolio. Mr. Watts responded the firm has high turnover running between 100% and 150%. He stated they have found that the greatest factor for having strong performance is keeping the portfolio fresh.

Mr. Vazquez referred to a small capitalization growth equity disclosure chart on page 13 of Boston's presentation booklet. He noted the chart reflected good growth in terms of composite assets, but then the firm lost two clients last year and were down to $237 million. He inquired what drove this event and what their current largest client in terms of assets is. Mr. Watts responded their largest client is the State of Pennsylvania at $130 million. He explained that the two clients must have been due to the Dreyfus issue because the firm did not lose anyone from the base client pool from 2001. Mr. Vaughn added that one of their clients dropped out of the composite due to cash flow and there was a restriction that kept it out of the first quarter results.

Mr. Vazquez inquired if the firm has a target cap amount for the mandate. Mr. Vaughn responded they will close the strategy at $2 billion in assets.

Mr. Vazquez noted the firm had just doubled their team, but not their portfolio. Mr. Watts responded their performance is very strong and they currently generate approximately $10 million in revenues for the firm. He expressed he felt very comfortable that he is within budget on his cost for meeting pay. In addition, the majority of compensation is driven by performance and not by the revenues of the product.

Mr. Canzano inquired about Boston Company's participation with regards to women and minorities within their firm. Mr. Harkins responded the Boston Company has a formal diversity policy and committee that reports directly to Mellon's CEO and meets on a quarterly basis. He stated their annual diversity report had been submitted to the Retirement Board, along with a copy of the policy.

Mr. Harkins reaffirmed that Boston Company could meet the minimum certification, including insurance. He added, if Boston Company was selected, they would be willing to negotiate a fee that would be acceptable to the Board.

The representatives of The Boston Company left the Board meeting.

Chairman Canzano called for a lunch break at 12:38 p.m.

The Board meeting reconvened at 1:39 p.m.

Mr. Rue and Ms. Bernstein approached the Board table. Chairman Canzano recognized the PCA representatives.

The Board and PCA discussed the presentations made by the small cap growth finalists and made a selection.

Mr. Vazquez moved the selection of Paradigm and NorthePointe as managers of the active small cap growth at the same fee level. Seconded by Commissioner Hogan-Rowles and carried unanimously after the following vote:

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

Nays: None

Mr. Canzano called for a recess at 2:37 p.m.

The Board meeting reconvened at 2:53 p.m.

Item 10 was taken out of order

10. Discussion and possible action in connection with selection of a bench of potential transition managers and authority to develop contracts

Ms. Bhatia stated the Board approved a bench of transition managers in October of 2003 and Resolution 04-23 speaks to that. She further stated, since the Plan has been using BNY Brokerage as the transition manager and this issue is now being revisited, staff would like to have transition agreements in place with other transition managers that the Board previously selected. Ms. Bhatia reported that staff checked the procedure with the City Attorney's Office and, as part of the due diligence process, it was suggested that PCA reaffirm that the managers selected at that time still passed the test to proceed with the contracts. She indicated a new Resolution (07-05) was brought before the Board, listing the transition managers (Frank Russell, State Street, and Merrill Lynch), with the addition of Mellon Bank. She stated PCA representatives were present to speak to their study of the bench.

Ms. Bernstein indicated PCA reviewed the current bench and feels it is an excellent complement to the other group of managers for the same reasons they were originally selected through the RFP process. She added that it was PCA's recommendation to replace the former custodian Bank of New York with Mellon Bank. Ms. Bernstein indicated that she also included in the background some of the more recent industry studies that show that all four transition managers on the current list are all very large and established transition managers. She stated the managers complement each other in terms of the areas and asset classes and methods of transition the Board might want to use in different areas and are all in the top 10 of 2006 studies. She recommended since the selection was done in 2003, this field is in transition and things do change, and contracts have not been signed with any of these or even established as a formal bench. Ms. Bernstein added that maybe three years out from now the Board may want to go out and do an RFI just to fully recheck the market. She stated PCA uses a number of these managers with other clients, including Mellon Bank and they have full confidence that this would be a great set of four.

Attorney Wilkinson added that PCA not only checked and surveyed the transition managers that were on the previous list, but also any new managers since then. He then inquired if there were any others that Ms. Bernstein would recommend, that were not previously considered and should be added. Ms. Bernstein reiterated that PCA was fully confident with the current list. However, this did not mean there were not other good transition managers out there. Mr. Moore inquired if any thought was given to retaining BNY as well. Ms. Bernstein responded in the negative. Mr. Moore inquired if there was any merit to that decision. Ms. Bernstein reminded the Board there is already a signed BNY contract in place and there is no harm in keeping that contract in place. However, it is important to add the current custodian. Mr. Vazquez inquired if it was intended to terminate the contract with BNY should the Board adopt the resolution or keep the contract in place. Ms. Bhatia responded that it was not the intention to terminate the contract; however, as reported after the completion of the last transition, there were concerns about issues regarding timely communication from BNY even though their performance was in accordance with the pre-trade analysis the firm had provided. She stated there was a lot of burden placed on the Retirement Office staff as a result of the lack of timely communication. She stated, as a result, staff had to scramble to get everything in place and this is a qualitative evaluation factor. She added for this reason staff felt it was necessary to have other options available. Mr. Moore inquired if there were current contracts with the others on the bench now and why did we not proceed with that. Ms. Bhatia responded there was a lot of activity going on at the time the bench of transition managers were first approved. Further, we had the one agreement with BNY in place and it would have taken additional time to negotiate terms with each of the transition managers approved.

Mr. Vazquez moved for approval of Resolution 07-05. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Nays: None

11. Retirement Plan Manager’s Comments

a) DWP Plan Newsletter for Retirees (July 1, 2006, Edition)

b) Update on IT system, personnel

Ms. Bhatia informed the Board that staff expects to send the LRS contract to the firm for their input some time this week after all the reviews are in. She added that staff had already done one round of feedback.

c) General Items

Ms. Bhatia reported, with regards to the Chief Investment Officer position and Investment Officer II position, she has been informed that most of the paperwork has been completed. However, it does need to go to the Board of Commissioners and this is expected to occur next month. Commissioner Hogan-Rowles inquired when this issue was going to be placed on the Board of Water & Power agenda. Ms. Bhatia responded it would be on the agenda of the later meeting in August. Commissioner Hogan-Rowles requested she be informed which meeting this issue would be an agenda item. Mr. Vazquez informed Commissioner Hogan-Rowles that the only Board meeting in August was on the 8th.

Commissioner Hogan-Rowles inquired if the meet-and-confer regarding the Retirement Health Fund had been scheduled. Mr. Vazquez responded the meet and confer was scheduled for the coming Friday.

9. Discussion of issues related to:

a) Investments in companies having operations in Sudan per request of Mayor Villaraigosa

Commissioner Hogan-Rowles commented that PCA did a good job of summarizing the issue and framing all of the things the Board should consider. She expressed PCA was very thoughtful around suggesting policies and recommendations if the Board wanted to move forward in the direction of pulling together a committee. Commissioner Hogan-Rowles recommended the Board look into pulling together a committee that looks at these issues a couple of times a year and create a draft policy and make decisions around future issues as well as the Sudan issue.

Commissioner Hogan-Rowles indicated she reread Mayor Villaraigosa's letter, reviewed what is going on in Congress and other background information, and feels the Retirement Board should take a position.

Mr. Moore expressed there were several issues that concerned him from a fiduciary standpoint. He commented if the Board takes a position and it does not work out from a financial standpoint, it will ultimately be the rate payers that will have to pay. Mr. Moore stated this also means the rate payers or any number of others could take action in way of litigation should the Board do something they feel was adverse to the interest of the fund. He then inquired what liability the Board members have as individuals. He explained the reason for his inquiry is that other institutions are being very careful about it, and are saying unless the legislature indemnifies them they are not going to move ahead. Mr. Rue commented that the indemnification has gone even further than just the individual Board members. He explained if there is an opportunity loss in the portfolio, California Public Employee's Retirement System (CALPERS) and California State Teachers Retirement System (CALSTRS) have taken the position that they will support the bill if they are indemnified against portfolio losses. Attorney Wilkinson commented this was not in the current bill, but it is for the indemnification for the Board members and staff. Commissioner Hogan-Rowles inquired when the divestment out of South Africa was done due to the apartheid, were the losses in portfolios indemnified. Mr. Rue responded in the negative. Attorney Wilkinson responded that Fire and Police was looking for indemnification from the City Council. However, it did not need to get to that because their fiduciary council said they would not be violating their fiduciary duty if they followed the policy they already had. He stated Mr. Moore's point is well taken and it is further reason and amplification for taking measured steps and proceed carefully with concern to the Board's fiduciary duty.

Mr. Moore stated the same issues have arisen again and the Board needs to deal with it and be aware of exactly what the liabilities are, assuming the worst were to occur from a financial standpoint. He stated it was his understanding that even if one of the Board members were to oppose an action that the majority endorsed, the opposing individual is still liable. Attorney Wilkinson stated he would have to check on that.

Mr. Moore inquired if the Board finds themselves in the midst of litigation on this matter, would the City Attorney defend them. Attorney Wilkinson responded in the affirmative. Mr. Moore inquired if that answer could change six months from now. Attorney Wilkinson responded in the negative.

Mr. Moore requested that if the other two retirement plans utilize Joe Wyatt (fiduciary counsel) to help advise them he would appreciate it if Attorney Wilkinson would include DWP's Pension Plan. He indicated the Retirement Board used to have a fiduciary counsel but unfortunately the contract was short term and it lapsed. He added, on occasions like this, the Board needs their own fiduciary counsel to speak to some of these issues.

Mr. Moore noted that the most effective and sound programs from a fiduciary standpoint require one to go through a very methodical multi-step process where you inquire of the investment managers how they are going to deal with these types of issues. Mr. Rue stated this was an interesting issue that poses the question of whether it would be worthwhile, at this point, in this particular issue's process, to engage a company that has already been engaged heavily by 50 plan sponsors across the country. He stated a committee may look at what engagement means, and at a minimum, you are engaging your investment managers and asking them what they are doing with these companies.

Commissioner Hogan-Rowles inquired if there was an opening in any of the investments to give the Board an opportunity to opt out if so desired. Mr. Rue responded there is no termination date on the commingled fund. He explained that in order to get rid of the holdings in these funds one has to sell their entire position in the commingled fund. Therefore, he suggests writing the manager and inquiring if they would get rid of the one holding.

Mr. Canzano suggested the Board receive training that addresses their fiduciary responsibility with regards to this type of issue. Attorney Wilkinson commented there is fiduciary counsel on retainer for the other two pension plans and it might be possible to attach DWP to that contract.

Commissioner Hogan-Rowles reiterated the forming of a committee, making this issue the first item and creating a policy that will address future issues. Mr. Vazquez suggested the appointment of this committee now or at the next Board meeting, as well as a resolution allowing the Department to piggyback on the contact with the City for the fiduciary counsel as an agenda item. Commissioner Hogan-Rowles, Mr. Moore, and Mr. Canzano volunteered to be members of the Governance, Proxy, and Investment Responsibility Committee. Mr. Vazquez requested PCA develop a short write up of what the responsibilities of the committee will be.

b) Investments in tobacco companies per request of Board Member

12. Future agenda items

The Board meeting was adjourned at 3:28 p.m.

EUGENE CANZANO
Chairman

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary