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

**MINUTES – August 16, 2006**

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| **Present:** | |
| Javier Romero | President |
| Michael Moore | Retiree Member |
| Ron Vazquez | Chief Financial Officer |
| Cindy Coffin | Board Member |
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| **Absent:** | |
| Forescee Hogan-Rowles | Commissioner |
| Eugene Canzano | Board Member |
| Ronald Deaton | General Manager |
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| **Others Present:** | |
| Sangeeta Bhatia | Retirement Plan Manager |
| Irene Colon | Recording Secretary |
| Paul Mouchakka | Pension Consulting Alliance |
| Pam Alsterlind | Pension Consulting Alliance |
| Sarah Bernstein | Pension Consulting Alliance |
| Neil Rue | Pension Consulting Alliance |
| Michael R. Wilkinson | Deputy City Attorney |

President Romero called the meeting to order at 9:37 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. There were no public comments.

1. **Termination from Monthly Rolls as of August 2006:
Retirement Resolution for August 2006
Resolution terminating Robert L. Rott from the August 2006 Permanent Total Disability Roll (reached termination age of 65)
Resolution terminating the following from the July 2006 Family Death Benefit Roll: Danielle V. Morales (attained 18 years of age) and Floe A. Morales (daughter attained 18 years of age)**

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

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Ayes: Coffin, Romero, Vazquez, and Moore

Nays: None

2. **Report of Payment Authorizations as of July 2006**
3. **Notice of Deaths for July 2006**
4. **Report on Status of Insurance as of July 31, 2006**
5. **Summary Investment Returns as of July 31, 2006**
    a) **Market Value of Investment by Fund and Month as of July 31, 2006**
    b) **Market Value of the Retirement, Death & Disability Funds as of July 31, 2006**
    c) **Investment Returns as of July 31, 2006**

Mr. Moore moved the above items 2 through 5 be received and filed. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Coffin, Romero, Vazquez, and Moore

Nays: None

6. **Presentations by Core Real Estate finalists and possible selection**

Ms. Alsterlind and Mr. Mouchakka approached the Board table. President Romero recognized the PCA representatives.

Ms. Alsterlind reminded the Board it was determined there would be three finalists and each firm has existing core funds already in place. She suggested the Board keep an open mind to possibly selecting two funds for manager diversification purposes. Mr. Moore inquired how much would be put into these funds. Ms. Alsterlind suggested $100 million in total.

**a) JP Morgan Asset Management**

Ms. Anne Pfeiffer, Managing Director, and Ms. Amy Cummings, Vice President and Client Portfolio Manager of JP Morgan Asset Management, approached the Board table. President Romero recognized the representatives of JP Morgan Asset Management.

The representatives provided the Board with a presentation of their core real estate strategy.

Mr. Moore noted the representatives mentioned they work with operators. Ms. Pfeiffer responded that JP Morgan's principal equity partners are Simon Properties, Westfield, and General Growth. She stated as partners they would be either 50/50 or thirds, there are no disproportionate returns, and JP Morgan monitors the fee charges very closely. President Romero commented he heard that residential real estate sales have been at an all time low within the last several years. He inquired how this affects the firm's portfolio. Ms. Pfeiffer responded JP Morgan has an interest in over 16,000 multi-family units and they try to buy those units in markets where there are constraints on new construction.

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Consequently, there is a demand for housing and the housing demographics are very good. She explained the impact of single family residential housing is not a direct correlation to rental housing. She further explained that to the extent housing slows down a little bit, it is not necessarily bad for multi-family housing because they may be able to rent to people who are unable to buy single family homes.

President Romero inquired if the firm had any issues regarding the Department's insurance requirements. Ms. Pfeiffer responded in the negative.

Mr. Vazquez referred to page 12 of JP Morgan's presentation booklet and noted they were well under target in industrial. He inquired why the firm set that target range and why were they under. Ms. Pfeiffer responded this was a very frustrating underweight and the firm would like to own more industrial properties. She explained that industrial has been a sector where they have been pursuing the acquisition of industrial and have been frustrated by the pricing at which industrial is trading. She stated there are a few markets in the country where you can pay a lot of money for industrial and do quite well. She added in Los Angeles it is not unusual to pay $100 a foot. Ms. Pfeiffer explained when one typically thinks about industrial it pertains to distribution, most likely to be the kind of industrial one would see in the inland empire, and it is very sensitive to the cost of new construction. She stated it was very hard for her to make the case in an underwriting that she is going to get market rent growth if she buys a building today for $50 and knows that the new developer down the road can build a new one for $45 a foot. Ms. Pfeiffer indicated JP Morgan is very prudent in their underwriting of industrial and thinks it is important to put in rents that represent what they can release the space for when the lease expires and get a return to represent the rents for industrial. She added the firm has been out bid for many industrial buildings that they feel does not recognize the risks that go with the acquisition.

Mr. Vazquez inquired how the firm prices their portfolio monthly. Ms. Pfeiffer responded JP Morgan has a very active valuation process and the entire portfolio and every asset is valued by Price Waterhouse. She stated the firm has a complete independent review every quarter on every asset. In addition, they hire third party appraisers to appraise every asset at least once a year and the larger assets twice a year. She added that they cycle through the process on a rotating basis throughout the year, meaning some assets are appraised every month. This allows the firm to strike a unit value and get them close to fair value for the portfolio every month. Mr. Moore inquired what the appraisals take into consideration and the extent to which they will reflect certain forward looking information. Such as, if you have a third of your leases about to be turned over in the next years he would assume that the valuation takes that into consideration. Ms. Pfeiffer responded Mr. Moore's assumptions were correct. She then referred the Board members to page 23 of the booklet to a detailed write up of the appraisal process. She added with regards to the expense side, the appraisers will look at the firm's existing expenses, the operating history over the last two or three years, their expenses today, and what the expenses will likely be in going forward. She stated the firm takes a very rigorous approach at making sure they forecast at operating expenses in calculating what the values will be.

Mr. Moore noted the representatives mentioned that the client can get out on a monthly basis if they choose to. Ms. Pfeiffer clarified they can opt out on a quarterly basis by sending a written notice 45 days before the end of a quarter.

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Ms. Bhatia referred to page 18 of the presentation booklet wherein it reflects the targeted return is NCREIF plus 100 basis points. She inquired if these returns were gross of fees. Ms. Pfeiffer responded in the affirmative. Ms. Bhatia inquired if the firm has net of fees returns. Ms. Pfeiffer responded their fee is 1% so they would still like to outperform NCREIF by 100 basis points on a gross basis. She explained that NECREIF is also calculated on a gross basis so the firm sets their benchmarks on a gross to gross basis to compare apples to apples. She added the fee would be a 1% fee off of gross. Ms. Cummings clarified there are no performance fees, just a very simple 1%. Ms. Pfeiffer stated there were no acquisition or disposition fees, so it is a straight 1% fee on market value and it is very easy to calculate.

Mr. Moore noted that PCA's report reflects that JP Morgan had caveats with respect to minimum full time employees (FTE) and have been involved in the SEC sweep examinations. He inquired if PCA is saying; nonetheless, the firm meets the minimum qualifications or are they qualifying to the extent. Mr. Mouchakka responded that one of the minimum qualifications was 3 FTE dedicated to the fund. He stated at JP Morgan there are 2 ½ FTE fully dedicated to the fund. In discussing with the representatives who responded to the RFI, the firm uses a team of approximately 180 that surround the core 2 ½ employees focusing exclusively on the fund. Therefore, PCA feels JP Morgan would meet the minimum qualifications. He added the firm has a large research and acquisitions team that would not only focus on the strategic property fund but would work many of the other products JP Morgan offers. Mr. Mouchakka explained that regarding the SEC sweep examinations, this was more towards the parent company and focused on fair dealing. He stated it was typical to find this with large organizations the size of JP Morgan. He added this was not with respect to the JP Morgan real estate team. Ms. Alsterlind concurred with Mr. Mouchakka in that PCA is comfortable in JP Morgan meeting the minimum qualifications.

The JP Morgan Asset Management representatives left the Board meeting.

**b) Morgan Stanley Real Estate**

Ms. Joyce Frater, Executive Director, and Mr. Mark Albertson, Executive Director of Morgan Stanley, approached the Board table. President Romero recognized the representatives of Morgan Stanley.

The representatives provided the Board with a presentation of their core real estate strategy.

Mr. Vazquez requested the representatives quantify their sales per square footage. Mr. Albertsons reported the national average is approximately $400 a sq. ft. for regional malls and Morgan Stanley's portfolio is in excess of $650 a sq. ft. for the five regional malls they own. He added that the two malls in Miami and San Diego generate in excess of $800 per sq. ft.

Mr. Vazquez inquired if the firm makes monthly or quarterly valuations, how they are made, and if they are reviewed independently. Mr. Albertson responded that Morgan Stanley has a very stringent valuation process. He stated every asset in the fund is reviewed by a third party MAI appraiser every quarter. He stated participants entering and exiting the fund do so at a third party validated net asset value. Mr. Moore inquired if the

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firm had any influence on override over this. Mr. Albertson responded the firm does have an override opportunity and it has been exercised extremely infrequently when they feel there is something the appraiser missed regarding a property. However, when a decision is made to override they have to take it to the their Board for approval. Mr. Albertson reported when Morgan Stanley has properties under contract for sale, and if the price is notably different than the current appraisal, once the property is under contract with the deposit made on the property, they mark the value up to that level. He added this also has to be reviewed and approved by their Board.

Mr. Vazquez inquired if the presentation material reflected what portion of the firm's returns have been through appreciation versus income. Mr. Albertson responded that over the 33 year history of the fund, it has generated a 9.7% return and the income component of that has been 8.0%. Mr. Frater referred the Board members to page 11 of the presentation material for the information regarding the returns that Mr. Vazquez inquired about.

Mr. Moore noted the firm's predecessor was relieved of his duties earlier this year and inquired what the reason behind this was. Mr. Albertson responded it was a mutual decision that he pursue another activity and he is now working with the group to form a new fund to make private investments in office and hotel properties. Mr. Moore explained the reason for his inquiry is because based upon the assessment PCA made they noted a lot of Morgan Stanley's returns have been due to the retail property and other sectors underperforming. He commented the presentation material reflects there was a concerted effort to change the balance of the portfolio and requested the representatives explain this. Mr. Albertson responded there has been a concerted effort that has been ongoing, but it really came at the time Morgan Stanley took over ownership of the fund. He explained the firm has an outside Board of Directors which consists of five members (two internal employees and three external members). He further explained that in June of 2004, Morgan Stanley recently assumed responsibility for a prime property fund and they were thinking about how the fund was operated in the past, what the risk points in the fund were, and how they were going to generate superior returns in going forward. Mr. Albertson stated the firm feels a lot of that comes from proper market selection and proper asset type selection from point to point cycle. He stated they did realize they were out of sync in a few ways and it was suggested by one of the Board of Directors to increase the allocation to the two sectors that have historically shown the best risk adjust returns and lower volatility -- those being apartments and industrial. He expressed the firm was looking forward to their internal research projection as to which property types they are going to outperform at different points in the cycle and it was their belief that the apartment sector was poised for a real rebound. He stated they expected a change in the housing market, a change in demographics with the emergence of the echo boom generation coming into household formation over the next 20 years, and a variety of circumstances that led them to increase their allocation to apartments. Mr. Albertson indicated the firm set off on a two year program to get a lower volatility fund by increasing apartment allocation. He stated it was all part of a concerted effort to try to position the fund to have anchor weightings in the sectors that have historically shown the best risk adjusted return in order to focus on both of those twin objectives of total return.

Mr. Moore inquired, since Morgan Stanley has a number of other core mandates, how does the firm make choices as to which mandate gets what properties, etc. Mr. Albertson

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responded the firm has less than what would be observed from the number of clients they have investing in core because very few of those are actively investing in today's market and on mandates that would overlap prime. But occasionally it does happen. He stated the firm holds a weekly meeting where the entire portfolio management and acquisition staff are on a teleconference together discussing the potential investment opportunities that are coming into the organization and the portfolio managers express interest or pass on these opportunities. He added on the rare occasions when there is a conflict there is a process in place that follows essentially a rotation system as to who gets the investment opportunity.

Mr. Romero inquired, assuming the Department had a contract in place today, how long would it take to be funded and see the money working. Mr. Albertson responded that Morgan Stanley does not have an investment queue today. Consequently, money would go in and immediately begin working. President Romero requested a timeframe. Mr. Albertson responded it could be done at the end of August or September, but they generally take money on a quarterly basis tied to the valuation. However, the firm does not redeem other than on a quarterly basis. He explained they will accept new capital at the end of any month recognizing the client is coming in on an interim valuation between quarters. He further explained they add the cash return and the change in capital investment to the net asset value to reflect the current market adjustment to the most recent evaluations by third party appraisers.

President Romero inquired if the firm's fees were negotiable. Mr. Albertson responded the firm's fees were not negotiable because they are a limited liability corporation that has elected private Real Estate Investment Trust (REIT) status and under SEC guidelines they cannot choose variable fee schedules for different investors regardless of size of investment. He added they have a base fee and incentive fee. Mr. Vazquez inquired what the average fee has been in the past three to five years. Mr. Albertson responded they had a different fee schedule under the prior fund structure. However, they wanted broader capital participation in order to reduce liquidity risk so they formed this private REIT. He stated the firm now has the new fee schedule included in the presentation material that is 90 basis points of asset management fee on net asset value. He added that the average shown on back testing would be 105 basis points.

The Morgan Stanley representatives left the Board meeting.

### c) Prudential Real Estate Investors

Messrs. Mark Oczkus, Principal, and J. Allen Smith, Managing Director of Prudential Financial, approached the Board table. President Romero recognized the representatives of Prudential Financial.

The representatives provided the Board with a presentation of their core real estate strategy.

President Romero requested the representatives explain queues as it relates to their core real estate fund and inquired if it was a commitment. Mr. Smith responded the queues were not a binding commitment. He stated at the end of 2002, the firm had a very large sale transaction resulting in the fund having a large amount of cash.

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Consequently, they put a process in place whereby they could in effect queue up investors who wanted to get into the fund based on the firm's ability to drive down the capital and deploy it. Mr. Smith explained the way in which the queue works is that people in effect are grouped by the quarter in which they make a commitment to the fund. The first to commit become part of traunch A, and those who make a commitment in the next quarter go into traunch B, etc. He added, as we draw down capital, we draw it down from each traunch. President Romero inquired if it was essentially a waiting list. Mr. Smith responded in the affirmative. President Romero inquired if the client holds the money. Mr. Smith responded in the affirmative, adding that the firm gives the client a heads up a quarter in advance when the money will be needed. President Romero expressed his concern about the Department not having any exposure to real estate and parking the money in an asset class for 18 months. Mr. Smith responded that the queue is something that is very fluid and is a function of the firm's acquisition activity. Currently, based on their acquisition activity and the amount of capital they expect to draw down before the end of the year, if DWP made a commitment to the fund before the end of the quarter, there would be a reasonable chance the firm could draw some of that capital before the end of the year. He indicated there have been times they have advised clients that based on the size of queue it would take four to six quarters to get in. However, based on their acquisition activity today it could be one to three quarters. Mr. Moore inquired if Prudential makes acquisitions of large portfolios as opposed to individual deals. Mr. Smith responded this is where the firm has really focused because in a market like we have been in, simply having a lot of capital does not distinguish you from anyone else.

President Romero inquired when the queue is defined and if it is by a verbal commitment or when all the contract language is in place. Mr. Smith responded the firm would like a written expression of interest from the client, which could be by email. He stated the firm likes to move as expeditiously as possible in getting the contract signed.

President Romero requested an example of a complex transaction. The representatives provided an example for the Board.

President Romero inquired if Prudential had any concerns regarding the Department's insurance requirements. Mr. Oczkus responded there were some self insurance issues that needed to be worked through and the requirement was more arduous than he has seen. But after the firm's attorneys and insurance people reviewed it there was nothing that could not be overcome.

Mr. Vazquez inquired how Prudential is able to manage the number of assets they have on a quarterly basis. Mr. Smith responded there is a Chief Appraiser within Prudential who reports up through the controller's department and she is ultimately responsible for administering the process. He stated the firm hired a third party appraisal firm that manages the entire process and it is an assignment put out to bid every three years. Mr. Smith explained that their role is to manage the appraisal process for all of Prudential's funds. He added it was intended to be as independent as possible.

Mr. Moore noted that PCA's breakdown of Prudential's life cycle diversification reflects approximately 12% as non-operating properties and inquired what this represented. Mr. Mouchakka clarified the information that was provided to PCA with respect to the life

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cycle diversifications showed 87.5% of the fund was in operating properties and the remaining 12.5 % would be non-operating, which included mezzanine loans, redevelopment, and development properties. Mr. Smith explained that the majority of that was going to be in loans Prudential has made. He stated most of their mezzanine lending has been on condominium projects. Generally, the firm sought to go into projects where the sponsor would have up to 15% equity behind their position and they were occupying in terms of 75 % to 80% of the capital structure. He explained that this allowed them to get a secure position with a very high coupon associated with it. He added that the returns associated with those mezzanine positions typically were 9% to 15%. Mr. Smith indicated Prudential does not take development risks, but enters into forward commitments where the developer takes the cost and completion risk on building and Prudential takes the leasing risk.

Ms. Alsterlind pointed out that when Prudential responded to the RFI they stated it was reasonable to assume that they will draw down some of the money. She then requested the representatives define the word “some”. Mr. Smith stated he could not define “some’ because the way the queue has worked is that people make commitments to them and then when they go to them to draw the capital down, the investor may choose to dollar cost average over a number of quarters. Generally, when Prudential has gone to the queue, $.50 to $.60 on the dollar has deposited in the quarter in which they have made the request. Mr. Smith continued, that is why Prudential is saying the queue is $2.5 billion, they are drawing down at $1.5 billion and there is a reasonable chance they could take money from the client at the end of the year.

The Prudential Financial representatives left the Board meeting.

President Romero called for a break at 11:44 a.m.

The Board meeting reconvened at 11:50 a.m.

The Board members and PCA representatives discussed the presentations by the core real estate finalists.

Mr. Moore moved that JP Morgan and Prudential Financial be selected as the core real estate finalists to manage $50 million each. Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Coffin, Romero, Vazquez, and Moore

Nays: None

President Romero suggested if one of the selected firms cannot meet the requirements they would be replaced by the remaining finalist. Ms. Alsterlind reminded the Board that if one of the selected firms cannot meet the requirements and the remaining firm replaces them, then there would be two firms in place with similar strategies. She then suggested proceeding and if there is an issue the Board can discuss a solution. Ms. Bhatia commented that the insurance requirements should not be a problem because the requirements are that insurance is recommended and not required and all of the firms provided their insurance limits. She added that the only thing missing is that the

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information needs to be input on DWP's forms. President Romero commented it did not necessarily have to be issues regarding insurance, but could be contractual language. Ms. Bernstein reminded the Board of their decision that the alternative and real estate insurance requests would only be recommendations and not requirements.

President Romero called for a lunch break at 12:10 p.m.

The Board meeting reconvened at 12:45 p.m.

**7. Resolution to commit $30 million to Landmark Equity Partners XIII, LP, a private equity secondary market fund-of-funds firm**

Mr. Moore moved the approval of Resolution 07-12 Seconded by Ms. Coffin and carried unanimously after the following vote:

Ayes: Coffin, Romero, Vazquez, and Moore

Nays: None

**8. Discussion of scope, policy language and fiduciary responsibility for the Governance, Proxy, & Investment Responsibility Committee**

President Romero suggested changing the name of the committee to Corporate Governance Committee. Mr. Vazquez recommended deferring this until the other Board members who suggested the name were present and then make a decision.

President Romero expressed his feelings that the proposed responsibility of the committee would open a can of worms that he is not sure the Board is ready to address. He suggested focusing on one topic. Mr. Moore agreed with President Romero's concerns, stating he would hope the committee would decide how broadly or narrowly they want to tackle this subject. Ms. Bhatia commented that the scope for the committee was not defined at the last Board meeting, only the idea that a committee should be formed to look at the type of issues such as Sudan, investments in tobacco companies, etc. She informed the Board the item was being brought back today because of questions that were raised regarding the scope and fiduciary responsibility. Ms. Bhatia indicated that Attorney Wilkinson was supposed to address the fiduciary responsibility and the possibility of "piggybacking" on the existing contacts that the City pension plans already have in place with fiduciary attorneys. President Romero inquired if the Plan already had a fiduciary counsel. Attorney Wilkinson responded that Robert Klausner was the fiduciary counsel and his contract had expired. However, after a thorough RFP process, LACERS and the Fire and Police Pension hired Joe Wyatt of Morrison & Foerster and Robert Klausner of Klausner & Kaufman as fiduciary counsel. Attorney Wilkinson stated since he wrote the memo a week ago (included in the agenda package), there has been approval from the outside Council Committee of the City Attorney's Office to hire both firms for the DWP Retirement Plan under the same terms as the other two plans. In addition, the City Attorney's Office has contacted both of the key lawyers and they have agreed. President Romero recommended if the Retirement Board decided to proceed this way it should be with Attorney Klausner since a due diligence interview had already been done and the Board already felt comfortable with

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him. Attorney Wilkinson responded it would be the City Attorney's recommendation to enter into contracts with both firms. He further recommended, as far as the Sudan and other social responsible investing, Mr. Wyatt had already done the bulk of the work for Fire and Police pensions and there would be very little additional time he would have to spend coming up to speed on that. Mr. Vazquez expressed it would be best to have both firms under contract because they might offer different services. Mr. Vazquez suggested the issues regarding the committee be deferred until the other Board members who are on the committee are present to discuss it.

Mr. Vazquez recommended the fiduciary counsel issue be agendized as a specific item for the next Board meeting. He suggested it be in the form of a resolution to engage both firms pursuant to the same contracts the firms have with the other two pension plans.

### 9. PCA's Quarterly Performance Review as of June 30, 2006

Mr. Neil Rue approached the Board table.

President Romero recognized Mr. Rue.

Mr. Rue reported the Plan's portfolio was worth $6.6 billion and the retirement Plan was $6.5 billion of that. He pointed out that due to the excellent performance of the international equity asset class versus other asset classes the asset allocation is bumped up against its maximum range. He stated there was a target of 15% but with a range around that of + or – 3%. Once this range is bumped, PCA believes the rebalancing policy says to rebalance half way back to the target. Mr. Rue recommended the Board direct staff to do the rebalancing. He also recommended rebalancing 1.5% of the international equity portfolio and that 1% go to domestic equity and .5% go to fixed income. President Romero suggested this be placed on the next Board agenda. Mr. Vazquez inquired if there was something already scheduled for sometime this year to revisit the asset allocation. Ms. Bernstein responded in the affirmative, adding there is also a regular rebalancing policy in place that the Board approved last year to reallocate on an ongoing basis given the existing policy. She stated in December PCA plans to bring forward a domestic equity structure for the Board's discussion. Mr. Rue commented that on the overall asset allocation policy, the goal as it stands right now is to present a couple of options for doing an asset liability model on the Retirement Plan in 2007. But because of the Other Post Employment Benefits (OPEB) PCA would present the Board with a timeline and one of the tasks would be for PCA to present the Board with some ideas about how to conduct an asset liability study for integration. Mr. Vazquez requested this be agendized for the next Board meeting also. Ms Bhatia inquired, with regards to the rebalancing, should the Plan wait a couple of quarters to see if it continues to exceed the target. Mr. Rue responded that typically in other plans, staff is delegated to rebalance back to targets when the targets are hit.

Mr. Rue reported there was overweighting towards the equity components because the private asset classes have yet to be funded. He stated it was a very volatile quarter and there was very strong performance in April, disappointing performance in May, and a flat performance in June. He stated the policy portfolio was down 80 basis points and the Plan's portfolio was down 90 basis points.

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Mr. Rue reported that within the domestic equity portfolio MFS, T. Rowe Price, Alger, Merrill Lynch, and Intech are all meeting their objectives and are adding value over the portfolio and index fund. However, there has been some struggles in the small cap area and this would be something that would be addressed in the domestic equity review towards the end of the year, along with the allocation between active and passive (currently 50/50). Mr. Rue further reported that in the international equity area there was very strong performance. He stated Invesco and Boston Company have lagged for the year but have improved on their developed markets portfolios in the last quarter. The emerging markets managers had a very strong performance but are underperforming. He stated the fixed income portfolio has done very well across every account for the year.

Mr. Rue reported for the three-year return WPERP's portfolio underperformed the policy benchmark by 130 basis points. He explained that this was a result of a lot of allocation to cash in 2004. International markets performed very strongly in 2005 and the portfolio was caught behind the funding and the process of getting all the contracts in place. He stated in 2006 the portfolio outperformed gross of fees by a modest amount.

President Romero requested personnel issues with Mellon Bank be addressed. Ms. Bhatia stated she received a phone message reporting that Alex Leonard was no longer with Mellon. She added the message stated there would be a replacement and staff would be informed, and Mike Fergusson would continue to be the local contact person.

**10. Retirement Plan Manager's Comments**

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

**b) General Items**

Ms. Bhatia informed the Board that she, Ms. Kim and Ms. Bernstein went on a site visit to the two proxy providers, Glass Lewis and ISS. She stated a reported of this visit would be provided at the next Board meeting. In the meantime reference checks would be completed on both firms.

Ms. Bhatia reported the positions of Chief Investment Officer and Investment Officer II were presented to the Board of Commissioners last week and were approved. She stated staff was working with personnel to find out the next steps in filling those positions.

Ms. Bhatia informed the Board that the contract process with LRS has been extremely lengthy and cumbersome and the firm has agreed to modify their agreement based on conversations. However, there are still a couple of open items and Attorney Wilkinson helped out with many of the issues. Attorney Wilkinson stated this particular contract ranks in the 95% percentile in terms of difficulty and complexity in the number of changes LRS wanted DWP to make on standard conditions. He indicated great progress is being made and he feels optimistic the remaining issues would be resolved relatively quickly.

Ms. Bhatia stated staff is working on transition agreements with Mellon Bank and State Street for the upcoming transition for the Small Cap Growth mandate that will be

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transitioned from BNY to North Pointe and Paradigm. President Romero inquired if the transition manager is Bank of New York. Ms. Bhatia responded there is a standing agreement with Bank of New York in case the others do not work out. She reminded the Board members that two meetings ago they selected a bench of transition managers and it was felt a few other agreements should be in place. Ms. Bhatia reported that staff is working with the ones with State Street and there is a conference call later today with Mellon Bank. She stated if those work out the thought is to try another transition manager because of some of the issues with Bank of New York in terms of the timeliness of communication. President Romero inquired if the issues with Bank of New York impacted the Plan. Ms. Bhatia responded there was no cost impact, but there was a lot of staff time used which should not be case when you have a transition manager. President Romero requested that before a decision is made the fees involved in the transition should come before the Board for review. Ms. Bhatia stated it was her understanding that the bench of transition managers was selected with the view to be able to use any of them. Also, if there was no material difference between the fees we were paying BNY and any of the new potential transition managers, staff has approval. However, it would be brought before the Board if they so desired. President Romero stated he would like to see what is being paid per share and to get a pre-trade analysis. Ms. Bhatia stated as far as the timing for this transition it was hoped to get the funds out by the end of the month. Mr. Rue commented there was also an issue of the contract with BNY ending August 31, 2006, and getting "no fee" during that time period. President Romero inquired if he could review the pre-trade analysis without having a Board meeting. Attorney Wilkinson responded it was okay for President Romero to look at it but he would not have any authority to make a decision for the Board.

Ms. Bhatia informed the Board that the Retirement Office is going to need more space. She mentioned that LACERS and Fire and Police Pensions are looking into a joint project. President Romero stated this was a separate Board discussion and should be agendized. Ms. Bhatia stated another option would be to find space on other floors of JFB. However, it is her understanding that groups who were leasing space are moving back to JFB. She explained to the Board that there are a lot of files in the Retirement Office and there have been Retirement Office employees who have had to go to the Medical Office due to injuries from trying to pull files. President Romero commented the risk of being part owners of a building may be reduced by having a guaranteed tenant.

The Board meeting was adjourned at 1:36 p.m.

EUGENE CANZANO
Chairman

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary

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