

**SPECIAL MEETING/GOVERNANCE COMMITTEE MEETING OF THE
BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MEETING – JUNE 6, 2007

Present:

Eugene K. Canzano	Chairperson
Mike Moore	Committee Member
Forescee Hogan-Rowles	Commissioner, Committee Member
Cindy Coffin	Committee Member

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Ramonette Carranceja	Assistant Retirement Plan Manager
Michael R. Wilkinson	Deputy City Attorney
Joseph Wyatt	Fiduciary Counsel
Jeremy Wolfson	Investment Officer
Irene Colón Gonzalez	Recording Secretary
Sarah Bernstein	Pension Consulting Alliance

Chairperson Canzano called the Special Board Meeting/Governance Committee Meeting to order at 1:18 pm.

Ms. Bhatia indicated a quorum was present.

Chairperson Canzano inquired if there were any public comments. There were no public comments.

1. Approval of Governance Committee Minutes of April 4, 2007

Chairman Canzano noted an error in the minutes indicating the word “proscriptive” should be changed to “prescriptive.”

Mr. Moore and Commissioner Hogan-Rowles requested that this item be deferred to the next meeting in order to give them more time to review the minutes.

**2 Discussion of Policy and Resolution relative to investments in Sudan
and update on letters sent to managers and companies regarding
their holdings in Sudan and possible action (continued from the April
4, 2007, Governance Committee Meeting)**

Ms. Bhatia stated at the last Governance Committee Meeting Staff provided an update of WPERP’s exposure to the offending companies based on two lists, the UC Board of Regents list and the Sudan Divestment Task Force List. She added

in addition a schedule was provided which combined the names of the two lists. Ms. Bhatia noted the updated combined list distributed at the meeting was not included in this package. She stated at the last meeting Committee Members were provided with materials from previous meetings along with the City Council indemnification resolution. Ms. Bhatia stated that Staff was asked to obtain answers to a number of questions and noted the responses to questions the Committee had asked were provided in the package. She added that Jeremy Wolfson, the Senior Investment Officer, did an excellent job in putting the information together. Ms. Bhatia reminded the Committee that information requested pertained to estimated transition costs of divesting from commingled accounts. She added that at the last meeting Staff reported that all of WPERP's exposure is through commingled accounts which means if the Committee wanted to make a decision to divest, it would mean changing the strategy, getting rid of the commingled accounts and moving the assets to a separate account under the same manager since there was no discussion about going to the RFP process. Ms. Bhatia noted that the memo provided by Mellon, their custodian bank, which was on page 2.6 of the Committee package, provided some of the costs involved. She explained that the Plan's exposure is currently around \$11 million, all in commingled accounts and with various investment managers. The costs as presented seem to be about 10% of that amount – a little over \$1 million. Ms. Bhatia emphasized that these are just the explicit costs, She referenced the memo from Mellon Bank and pointed out that there would be other expenses specific to each country which would require looking at potential new investments in the context of the relevant rules of the country. She reiterated that these additional costs could not be estimated at this time. She explained the costs would include having an infrastructure in place in each of the various countries in terms of professional staff that would process the transactions. Ms. Bhatia pointed out that since the Governance Committee last met, it was brought to Staff's attention that the policy that WPERP adopted was the same policy that was actually being considered for adoption by the two City pension plans, LACERS and Fire and Police; however, these two plans had now actually added language to indicate that the divestment process would only apply to the actively managed separate accounts and not to commingled accounts, index accounts, hedge funds-of-funds and real estate and alternative assets. She added PCA had also recommended adding this same language and noted their memo was included in the Committee package. Ms. Bhatia suggested that the Committee should consider amending the policy because of the difficulties associated with divestment from commingled accounts. She noted the various managers were here to speak to some of these issues and to answer the Committee's questions. Ms. Bhatia strongly suggested that the Committee consider this aspect before proceeding.

Chairman Canzano commented that one of the issues that interested him was that since Mayor Villaraigosa had made it very clear that he would like the pension plans to follow issues noted in his letter, he felt that it was important that they consider what Fire and Police Pensions and LACERS were doing. He stated that "a unified Los Angeles is a strong Los Angeles." Ms. Bhatia asked Sarah

Bernstein, PCA, to speak on the matter. Ms. Bernstein clarified that it was Fire and Police Pensions that had adopted language to address commingled funds, private equity, etc. She stated LACERS had a more expansive policy; it does not have that language but they also do not have any commingled funds and noted their restriction at this time is just to look at public equities, Ms. Bernstein added that they do not have any hedge funds-of-funds so it is only equities, standard public equities accounts, and automatically excludes because of the definition of real estate and private equity. Ms. Bhatia stated the policies of the two City pension plans were included in the package and asked Mr. Wolfson for his comments. She stated she believed LACERS had exemptions for commingled accounts and index accounts. Mr. Wolfson concurred and stated this was noted on page 2.125 of the Governance package. Ms. Bernstein added that she had spoken with LACERS and, even though they did not have this particular paragraph currently in their policy, they noted this was something they will look at in the future as they go forward and will be adding or amending their own policy. Commissioner Hogan-Rowles asked if LACERS' policy did not include the paragraph that stated they were only looking at single funds. Mr. Wolfson replied that they state it, but in a different way, noting it is not as expansive and pointing out, on page 2.125, Section C, item 1, it does say that they would be exempt from commingled funds. Ms. Bhatia noted that they also included the policy from the San Francisco City Pension Plan and it contains similar language. Commissioner Hogan-Rowles stated that she thought the Committee asked to get a summary of all of their investments that are in Sudan, and inquired if the list that was handed out was all of them or just the commingled funds. Ms. Bhatia responded the list included all of their investments in Sudan and all of them are in commingled funds. Commissioner Hogan-Rowles replied that in their situation their impact is severely lessened if they chose to take on that kind of language because you are saying if it is in a commingled fund our hands are tied and you are not going to do anything. Ms. Bhatia clarified that Staff is saying that the Committee should seriously look at the impact of divesting from commingled accounts, but if the Committee chose to go that route, there is much to be considered. Ms. Bhatia added Staff research indicates a significant impact on the Plan portfolio in divesting from a commingled account as opposed to a separate account in order for the implementation to be accomplished successfully. Commissioner Hogan-Rowles stated she would like to hear about this because as long as the Committee has been discussing this, they had not heard anything that lends itself to being so difficult it could be done. She added she would like to hear from the Investment managers present.

Mr. Moore stated that the list put out by the Sudan Divestment Task Force is no longer current. He asked the Committee to go to page 2.62 of the Governance package which lists who they consider to be the highest offenders adding they have four categories: "Highest Offenders", "On-going Engagements", "Unknown Current Operations" and "No Publicly Traded Equity". He commented that if we are really looking at the companies that the Sudan Divestment Task Force is most concerned about, it would be those companies in category one which contains about 30 companies. Mr. Moore added that he doubted that any of the

Plan's funds hold anything more than what we probably had before in the commingled funds right now. He pointed out that a number of the companies that are listed here are big dollar items, like ABB and Schlumberger, and noted that the Sudan Divestment Task Force's webpage shows that Rolls Royce and ABB have publicly stated they are pulling out of Sudan and Schlumberger was moved from their most egregious list down to the second category which means we need to keep communicating with them and keep putting pressure on them. He added that this list states that the most recommended candidates for divestment are in category one. In answer to Commissioner Hogan-Rowles query, Mr. Moore reiterated that both Rolls Royce and ABB have stated they were pulling out of Sudan. Ms. Bhatia added that this was due to letters and pressure.

Mr. Moore commented that looking at the cost estimates is a little misleading. Mr. Wolfson clarified that the estimated costs are not solely related to selling out of the securities that are held that are doing business in Sudan; it is actually because of the countries they are invested in for the overall portfolio, e.g., 75% of them are in countries that cannot transfer in-kind. Mr. Moore responded that though he understood this was a separate issue, he is very concerned because this would involve transfer and custodial costs in some of these countries as well as tax issues which would require opening up separate offices, etc. or having someone work with in each of these countries. Mr. Moore also noted this is not something Staff is familiar with so it would probably have to be done through another custodial bank. Mr. Moore informed the Committee that there has been another approach that has been taken regarding this matter and he felt it spoke directly to what Commissioner Hogan-Rowles was concerned about – exempting out of the commingled funds. He stated there was an approach being followed by the Boston Foundation that he learned about on the Internet. He explained, instead of getting out of their commingled funds, what they did was “short” every one of their stocks in the same amount they proportionately owned in the commingled funds. Mr. Moore explained we would be borrowing them from someone else to sell the stocks which would create a “short position”; but we would also have a “long position” in the funds that we continue to hold on to so that we are basically “neutral” at that point with respect to each of the companies that we “short.” He noted you just maintain your short position for a long time and, while there is a carrying cost, it is nowhere near the costs involved in divesting from commingled funds. Mr. Moore pointed out you have accomplished your objective of getting out of the stock and not through selling it. Chairman Canzano stated he was not clear in what way this strategy puts pressure on the companies. Mr. Moore explained there were two ways typically that those who are advocating divestment see this as putting pressure on the companies. He stated they feel the primary pressure comes not from selling the securities but from the pressure of writing the letters and saying this is what we are going to do, get companies to know to get their act together, we're watching, and if they do not get their act together, we are considering divesting the stock. He added he suspected this was one of the primary motivating factors with respect to ABB and Rolls Royce, etc. These investments were just a small part of their business and they were getting a lot of bad “PR” from it. Mr. Moore concluded that this was the

major pressure that typically comes from divestment; but ultimately, if you come to a point where they are not cooperating or answering our letters, etc. and you are still concerned, then you ultimately sell the stock. He explained shorting the stock accomplishes the exact same thing were you to pull the monies out of the commingled funds and put them into a separate fund (assuming you could do this for no cost) – you are no longer making money or losing money with respect to that security. Mr. Moore added you are not incurring all of the costs associated with divestment, which in this case, if it were approximately \$1 million as Mellon mentioned, that is a huge “piece of the action” and is about 40% of the money that you are actually trying to dispose of in the commingled funds. Responding to Commissioner Hogan-Rowles’ query, Mr. Moore stated that Mellon Bank acts as our custodian bank and clarified that they will still have the investment, but we have sold it regardless of whether they still have it, noting it will still be in our portfolio, but we have sold it because we have borrowed it from someone else. Commissioner Hogan-Rowles inquired if we could still say we are no longer invested. Mr. Moore responded he thought we could and noted the Boston Foundation’s was trumpeting this approach. Ms. Bernstein stated that you could say you have a “net zero position” as a result of the shorting approach.

Mr. Wyatt commented that if enough people take a short position, the value of the stock is going to go down anyway. Chairman Canzano added that by shorting and then holding the position, we do not actually take a financial hit because we are completely offset. Commissioner Hogan-Rowles clarified that we will take a “hit” in respect to the transition costs, but those will be minimal compared to what it would be if we were to divest completely. Mr. Wyatt agreed adding that he was sure that was the reason that any community foundation, the Boston Company particularly, had in mind when they decided upon this course. Chairman Canzano stated that he found this an interesting strategy that he has not had a chance to ponder and added that he wanted to make sure they were still making the impact they want against these offending companies. Commissioner Hogan-Rowles stated she was not sure the impact was really the same and she was not sure the public would even understand that and indicated, just like the Committee needed a thirty minute explanation to understand this strategy, we would have to give a similar explanation to the people of Los Angeles, or even the world, should we not divest. She added that she was still open to this idea, but stated the items she just spoke about still concerned her.

Commissioner Hogan-Rowles inquired when it was mentioned that ABB and Rolls Royce had pulled out of Sudan, which was about \$8.6 million of the Plan’s \$11 million, if the costs of them pulling out those other smaller amounts is not going to be as high. Mr. Wolfson replied that this goes back to the original assessment – the costs that Staff presented from two of the managers (who provided us with reasonable costs) was based on transferring to a separate account in order to divest and noted that 75% of the portfolio could be invested in different countries that do not allow in-kind transfers. He added, because of that, they have to then sell those stocks and repurchase them and there is a cost inherent in that noting that it is completely regardless of what they own in Sudan.

Mr. Wolfson noted that Pyramis' costs were the lowest of the three companies and stated the \$1 million may even be higher if Pyramis' costs were inaccurate. In response to Chairman Canzano's inquiry, Ms. Bhatia explained that the high costs were driven by transition costs and market impact noting we may not be selling when we should be selling in our hurry to divest. Commissioner Hogan-Rowles stated she still felt the Committee needed to figure out how to really divest making sure it is prudent and follows our fiduciary responsibility. She asked what the resolution passed by the City Council indemnified the Board from. Mr. Wilkinson replied, it was against lawsuits against the Board Staff. Ms. Bhatia noted it was provided their fiduciary responsibility had been followed and noted this was also stated in the Mayor's letter. Commissioner Hogan-Rowles stated if the Committee did not do the net-zero and still wanted to impact the existing funds that are invested by divesting, the transaction costs are close to \$1 million, so one-third of the amount we are divesting is going to cost us one-third of that, and asked if this would be considered meeting our fiduciary responsibility. Commissioner Hogan-Rowles noted that \$8 million has been divested because the companies themselves made a decision to pull out. Chairman Canzano replied that that would not affect the costs all that much. Mr. Wolfson clarified that Commissioner Hogan-Rowles was correct and she was comparing the \$1 million to the smaller amount that we hold. Commissioner Hogan-Rowles reiterated that about one-third of the cost becomes what it would cost us to pull out the remaining approximately \$3 million. She asked if the determination of whether they acted with fiduciary responsibility was based solely on the Committee's decision to divest if done in a prudent way, or does it attach itself to what it cost us to do that. Mr. Wyatt responded, to the best of his knowledge, there is no diminutive rule with respect to expenses. He added if someone has a plan that achieves the same result by a different route, because procedure is so much a part of being a fiduciary, how you go about making a decision is almost as important as which decision you make. He noted it may not be in a case like this, but getting to the decision is a very important part and stated rejecting a method that would materially reduce your expenses and measuring what that would be, would probably be prudently exercising your responsibilities. Mr. Wyatt stated it was important to speak to people "who know what they're talking about" to find out what the plus and minuses are. Commissioner Hogan-Rowles stated that she believed we should respond to the Mayor via a letter stating we are in receipt of his letter requesting divestment of any of our funds invested in Sudan; however, our Board has come up with some ideas and we would like to know his position if we were not to divest but instead do the following. She added we could ask our managers for the appropriate language. Commissioner Hogan-Rowles noted he may say that as long as we are getting the economic impact that we are after, it does not matter. She added that she felt we should also divest and she thought it was a good idea to ask the managers what the pros and cons and what the costs would be in either divesting or doing the net-zero.

Rob Harkins and Lawrence Ivey from The Boston Company approached the podium. Mr. Harkins stated the idea of netting out the position with shorts was very interesting and added this would accomplish a couple of things. He noted if

you switched to separate accounts and you sell your position in PetroChino and sell it down to zero, this was an action making a statement. Mr. Harkins added, if you short it, you are making and maintaining an active negative position against the company. He added that there is an argument that that this approach puts more pressure than just the one time sale which then equals out across all the liquidity in the markets. Mr. Harkins stated to actually short the stock or establish an off-setting short portfolio is something which is very easy to do. He informed the Board that their company has been running “structured portfolios” where they off-set long and short positions for about 15 years and added the markets for doing this was very well developed. Mr. Harkins stated he felt sure the Plan’s consultant could educate them on what is involved; and while the terminology may be new, the actual underlying concept is very simple. He stated we could very quickly enact this and this would give them time to determine how to reduce the amount of work that he knows Staff is going to have to go through in order to implement this. He stated that any time they trade in an emerging market they must pay anywhere between 30 and 50 basis points of the principal value traded for that transaction and noted that that was a very material consideration for them and more so then when trading in more liquid domestic markets or even more liquid non-U.S. markets. Mr. Harkins pointed out that when they are trading in the U.S. it is only in cents per share and as they get into the emerging markets the costs go up as the efficiency of the markets go down. He stated the cost benefit comes down to a couple of things as noted by Mr. Wolfson. Mr. Harkins remarked, right now you have only one line item charge on your custodial statement – investment in The Boston Company’s pool vehicle. He added, if we did a separate account, there are 26 emerging market countries that are in the Emerging Market Index and of those, for political and capital market transparency reasons, they have excluded four. Mr. Harkins explained that they would have to open offers in 22 countries, and while in some countries it is a “no-brainer,” in a lot of countries like Taiwan, Korea and India, it can take a couple of months and there are \$10,000 or \$15,000 of an upfront cost. He noted in India you must have a tax advisor to do some annual paperwork for you, so there is a lot of monitoring and a lot of compliance-type work which basically comes down to a burden on Staff. He added, on the other side of that, you do get the opportunity for WPERP to pick up securities lending and potentially pick up revenue or income from securities lending activity on that portfolio. Mr. Harkins concluded when they speak to their clients they note that there is a time to invest, there is a cost to invest, there is an on-going demand on Staff’s time to invest, plus in the Plan’s case, we are already invested one way, so there would be the initial costs to switch over versus what you get once you have already established yourself there, which is the pick-up on the securities lending side. Mr. Ivy added, regarding securities lending, the differential would not be from going to “no benefit” in securities lending because the pool that the Plan participates in itself does accrue certain benefits as a result of securities lending already adding we might be able to achieve a marginally more favorable arrangement in a separate account but it would not be as dramatic as going from no securities lending benefit to gaining a full securities lending benefit. He noted some of the differences in dealing between emerging markets and developed markets and

stated one of the reasons why the Pyramis transaction costs were substantially lower may be that those names that were mentioned were wholly in essentially developed markets where the ability to do in-kind transfers is not an issue.

Chairman Canzano asked Mr. Harkins to elaborate more on “netting out” the position. Mr. Harkins gave as an example, in order to affect a short sale you must go to someone and say, “We want to sell you this stock today because we believe it is going to go down.” If IBM is trading at \$10 a share today and we believe it is going to go to \$5.00 a share, I would then turn to someone and say, “Let me borrow your shares of IBM today and I promise to give them back to you,” which I promise to do in some finite period of time and then I pass them on and give them to you – I profit if the stock goes down. Answering Commissioner Hogan-Rowles query, Mr. Harkins explained someone would “lend” their shares for a number of reasons, e.g. they could have one position and the other person could have another view or they could be trying to satisfy risk dynamics in their portfolio which are opposite of the risk dynamics in another person’s portfolio in the market. Mr. Harkins remarked “short interest” in the market is heavily monitored, not only on an individual security basis but also on the market as a whole, e.g., the management of PetroChina incentive is to make that stock price rise – they are going to know that short interest is going to be “wind in the face” of them trying to get an increase in their market value and people out there looking to buy the stock note this and wonder why. Commissioner Hogan-Rowles asked how this affects the company. Mr. Harkins replied it is an active position which says “sell” in the market. Sarah Bernstein added it is downward pricing pressure on the stock of PetroChina. Mr. Moore stated a short position ultimately has to be covered so there is a potential reward if they ultimately do what the community wants to see them do with respect to Sudan. Commissioner Hogan-Rowles asked, in investments under \$1 million, how likely is it that we would create a movement in the market. Mr. Harkins replied how much of an impact would the Plan have in selling out the long position and added, if you own the shares and it is going to cost a lot of money to switch out to another form of ownership, and you can easily do something that will effectively give you an economic position of zero, plus creates an active downward force in the market or sends an active, on-going message, it is still there. Mr. Moore stated there are a lot of other people out there who are considering the same thing which is why the Boston Foundation went this route and we’ve seen the other two pension plans exempt commingled funds because of the complexities in dealing with them and the risks associated with them. He noted there is also risk involved in trying to do business without the help of the fund managers that handle all the custodial functions for these stocks. Mr. Moore added he suspects a lot of other people will look at this as word gets out that shorting is an option. Mr. Moore inquired, since most of the “offensive” companies are in the emerging markets category, what percent of their institutional funds are commingled vs. a single account. Mr. Harkins replied, within their own book of business, only about \$4 billion of \$10 billion in emerging markets they manage are in commingled, about 40%. He noted that LACERS, which has our same strategy, has a \$200 million account and they funded in emerging separate to begin with.

John Plowright from T.R Rowe stepped to the podium. He stated that the U.C. Regents themselves have exempted commingled funds for many of the same reasons that Mr. Moore just spoke on. Ms. Bhatia stated this was new information.

Mr. Canzano stated that the Committee has consensus on wanting to find out more about “zeroing out” their position with the use of “shorts” but felt the Committee needed more time to digest this information. He added it was expensive to divest from a commingled fund, but if they could obtain their objective and have an on-going impact, that may be an important issue for the future. Mr. Moore asked PCA to touch base with the Boston Foundation to see what “negatives” they may have encountered and to see who else has done this same thing. Ms. Bernstein replied in the affirmative.

Commissioner Hogan-Rowles stated we have been working on this for over a year and asked if we could get an update in two weeks time, at our next meeting, in order to make a decision. Chairman Canzano agreed and it was determined that the next meeting date was June 20, 2007.

Mr. Moore asked if Staff could check with all the international funds and ask what holdings they have in the new list that was put out by the Sudan Divestment Task Force under the “Highest Offenders” category. Ms. Bhatia replied in the affirmative. Commissioner Hogan-Rowles clarified that they would like a summary with the pros and cons of “shorting” as opposed to divestment including what the projected fee costs might be.

In response to Commissioner Hogan-Rowles’ suggestion to update the Mayor, Mr. Wyatt stated that he agrees we should update the Mayor on what we are doing, but he would not ask the Mayor what his office thinks of a new plan that had not been researched. Ms. Bhatia added, for these types of strategies to work, perhaps it is better to not announce your approach in order to make it effective. Commissioner Hogan-Rowles reiterated the letter did not say divest or some variation thereof; it stated divest. Mr. Moore commented, it also said divest consistent with our fiduciary responsibility. Commissioner Hogan-Rowles agreed, but stated that neither of these options were outside their fiduciary responsibilities. She pointed that Mr. Wyatt did not say that the expenses were what would determine whether or not our actions were fiduciarily responsible or not, but rather the discussion and the way the Committee makes their decision would determine that. Mr. Canzano stated that what he understood Mr. Wyatt was saying was that if there were multiple ways to obtain the same end result, they need to be very careful that they pick the most economically pleasing way of doing that for the Plan in order to maintain their fiduciary duties. Commissioner Hogan-Rowles stated that that was assuming both ways achieve the same result. Chairman Canzano agreed. Mr. Wyatt added that this is why the Committee asked for research to find this out. Commissioner Hogan-Rowles asked how best to craft a letter to the Mayor in response to his initial letter. In response to questions and comments from Chairman Canzano and Ms. Bhatia regarding

sending an update letter to the Mayor, Mr. Moore suggested the Committee wait at least two weeks until they have a chance to learn more about the “shorting” process and to give a better justification so the Mayor understands what they are doing. He added the other pension systems have established or are about to establish a divestment policy and provide direction to their investment managers with respect to the other categories. Mr. Moore stated he assumes the other pension plans have sent letters to all of their investment managers stating they have adopted a policy that is basically saying they are divesting and they are directing their managers not to invest in the following companies. In response to Mr. Moore’s question, Ms. Bhatia replied that LACERS is using the initial list of nine companies. Chairman Canzano stated they should keep checking with the Task Force, noting they are on top of who the offenders are and which ones have pulled out of Sudan. Mr. Moore pointed out, based on staff’s excellent report, the many lists out there have now been consolidated into one list under the Sudan Task Force and they are the group that is advising the University of California at Berkeley. Mr. Wolfson explained that the Task Force list is updated frequently, expiration dates are noted and WPERP is on their distribution list. Commissioner Hogan-Rowles asked if were investing new money into the commingled accounts of the companies on this list. Ms. Bhatia stated the managers should not be investing any more money, but asked the managers present from The Boston Company and T.Rowe Price to speak to this. Mr. Harkins, from The Boston Company, stated they are a full discretion manager and if one of the companies listed on the Sudan Task Force becomes a very compelling valuation, has strong fundamentals and great business momentum, and is a more compelling choice than any other company out there, it could potentially wind up in their portfolio. Mr. Moore stated another “wrinkle” to the option would be, in addition to shorting those positions, they could withdraw the appropriate funds to fund that short position. Mr. Harkins explained that there is a benefit because when you borrow short, you get collateral so you would get cash that you get to invest on that. Ms. Bhatia added that if we were to withdraw, it would be like redeeming our investment. Mr. Plowright stated the Plan currently owns shares in their commingled trust – you technically and legally do not own these underlying securities – The Boston Company and T.Rowe Price own those underlying securities and, by law, they can do with it what they want and can invest. He added they had been decreasing their exposure but that has nothing to with the Committee’s concerns – it is purely economic and can fluctuate. Commissioner Hogan-Rowles asked if they were to set a policy stating that they no longer want any of their existing funds to be newly invested as of say, June 6, 2007, what would that mean. Mr. Plowright answered it would mean nothing as far as the commingled funds go. Chairman Canzano added they could always short whatever new position they took. Commissioner Hogan-Rowles expressed her concerns regarding who would do the “short.” Mr. Harkins stated there was an on-going reporting to staff and there were a number of different ways that you could affect it. In response to his question, Mr, Plowright stated that T.Rowe Price was not active in shorting stocks but it was something they could do if needed and suggested that maybe Staff could do it. Ms. Bhatia explained that they have moved away from in-house investing to full discretion investing, the

idea being they were investing in managers under certain mandates without telling them which companies to buy. Commissioner Hogan-Rowles asked PCA to speak to this. Ms. Bernstein replied there were a number of options and stated they would address this in a memo regarding shorting stocks as a potential opportunity option for WPERP to address this particular issue.

In response to Ms. Coffin's inquiry, Mr. Harkins stated they would work out a reporting structure noting they would have to have some type of band of tolerance because we would not want them to be adjusting the position minute by minute during the day. He added, just as they give holdings on a monthly and quarterly basis, they would do the same type of reporting in regards to the shorting and Staff could do the math on the percent of the overall trust to come to the fact that it would be a position of net zero exposure to the Plan. In response to Chairman Canzano's question, Mr. Harkins and Mr. Plowright both stated they would be legally bound to inform the Committee what they own.

Chairman Canzano stated he wanted to make sure this puts the downward pressure on the companies, it affects who we want to affect, and feels it would have more of an effect being on-going as opposed to one time. Commissioner Hogan-Rowles stated that the only difference between the two approaches would be the cost and time between doing the short and divesting from the commingled accounts. Mr. Harkin added, when you short, you usually do it for a finite period of time, so at the end of that time period you have to establish another short position so that is multiple, active actions on the your part putting downward pressure versus, you sell the stock tomorrow and it has a one-time downward pressure.

Mr. Moore inquired as to why the other City pension plans have exempted the index funds. Mr. Wolfson replied he believed it was for the same reasons – an index fund has multiple customers so the firm's manager has a fiduciary responsibility to all their clients, so you could not just direct and restrict them from buying a stock, because then it affects the other clients. He reiterated that our index funds are in commingled accounts.

Mr. Moore clarified, with respect to the alternative investments, real estate has no foreign investments but he was not sure as to private equity and hedge funds. Ms. Bernstein stated they have some range of opportunity, so while you are investing domestically, some of them have the opportunity to go up to 10% abroad. She added, the reason behind Fire and Police's exemption from those funds was because of the difficulty in getting into some of the funds and the difficulty of getting data out on the hedge fund-of-funds, getting the transparency level down and not wanting to be in a position where they were having to get out of a private equity fund that was a terrific fund and they wanted to stay in. Ms. Bernstein stated there was no separate account method in those opportunities. She noted, generically, it is the same issue – you are investing along with other people on a similar basis and you do not have that kind of discretion in those cases.

Chairman Canzano stated that the Committee would reagendaize for June 20th, based on whether we have quorum.

Ms. Bhatia stated she wanted to acknowledge the work done by Mr. Wolfson, as well as Lisa Poon and Grace Adajar. The Committee asked Ms. Bhatia to convey their thanks.

Deputy City Attorney Michael Wilkinson stated he wanted to go on record that the divestment policy completed by Mr. Wyatt noted on page 2.116 of the package reflects all the final comments and changes directed by the Committee. Committee Members stated they wanted to review the policy again before approving the policy and wanted it brought back to the next meeting. Ms. Bhatia noted that WPERP's policy differs from the other pension plans because there is no language concerning the commingled accounts. Commissioner Hogan-Rowles stated she was not sure they should include language regarding excluding commingled accounts and felt it should be the option of the Committee to make recommendations to the Board on a case-by-case basis. Chairman Canzano concurred.

The meeting was adjourned at 2:30 pm.

EUGENE CANZANO
Chairperson

SANGEETA BHATIA
Secretary

IRENE COLÓN GONZALEZ
Recording Secretary