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

MINUTES – NOVEMBER 14, 2002

Present:

Javier Romero	President
Dan Mirisola	Vice-President
Lilly Calvache	Board Member
Ron Vasquez	Chief Financial Officer
Norma Bertrand	Board Member

Absent:

David H. Wiggs	General Manager
Anne E. Cho	Commissioner

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Vikki Burks	Recording Secretary
Mike Wilkinson	Deputy City Attorney
Peter A. Lopez	The Boston Company
David R. Bowser	Standish Mellon Asset Management
Barr Z. Segal	TCW
James A. Tilton	TCW
Neil Rue	Pension Consulting Alliance

President Romero called the meeting to order at 9:09 am after the Pledge of

Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there is quorum of the Board present. He also stated this was a Special Meeting of the Board to receive the quarterly presentation by representatives of Standish Mellon Asset Management, The Boston Company, and TCW, as well as the discussion of the asset allocation plan pursuant to the agenda.

PUBLIC COMMENTS
President Romero inquired if there were any public comments and there were none.

Mr. Peter Lopez (The Boston Company) and Mr. Bowser approached the table. It was agreed agenda item number 2 be discussed first.

2. **The Boston Company Asset Management, LLC investment counsel third quarter report.**

President Romero recognized Mr. Lopez.

Mr. Lopez introduced Mr. David Bowser, a credit expert from Standish Mellon Asset Management, and suggested the Board ask him questions, if any, regarding positions in the portfolio. Mr. Lopez presented the Boston Company Asset Management quarterly report to the Board. He indicated there were two portfolios, the Full Discretion Portfolio and the Safekeeping (Highmark) Portfolio. He started with the Full Discretion Portfolio, explaining the investment objective was to maintain the historical concept of the investment while being benchmarked against the Russell 1000 value and maintaining a low turnover.

Mr. Lopez reported the performance of the portfolio went down 20.3% for the quarter, and the benchmark was also down 18.8%. He compared how various sectors in DWP's portfolio performed, compared to the sectors in the Russell 1000 value index, pointing out DWP outperformed the benchmark in the utilities, and underperformed in the financial services sector due to exposure to investment banks (JP Morgan, Citigroup, and Morgan Stanley), which were impacted by credit and governmental inquiries. Mr. Vazquez inquired why DWP underperformed the benchmark in Health Care and Capital Goods. Mr. Lopez responded the index was overweighted in healthcare (underweight to HMOs and overweight to pharmaceutical companies). Mr. Vellon inquired if being overweighted was a conscientious decision or an accident. Mr. Lopez responded nothing was accidental and conscience decisions were made using numerous techniques for monitoring positions relative to the benchmark in each of the indices; however, as historical concept of investments is maintained, a lower turnover will also be maintained. Mr. Vellon again inquired if it was a conscientious decision to be a little bit overweighted and as it turned it did not work out for the quarter. Mr. Lopez responded in the affirmative.

Mr. Lopez outlined the individual stocks contributing the most to performance and those subtracting the most value for the quarter. He indicated the energy stocks had a difficult time in the quarter due to volatility over the last two months, which was specifically related to Iraq. He proceeded to explain The Boston Company stock selection process and expounded on the top 10 stocks in the portfolio, their weighting, diversity, and characteristics, compared to the benchmark. He added DWP's portfolio underweighted the Russell 1000 benchmark in financial services, technology, and companies which are going to make money by lending at one rate, borrowing at a smaller rate, and overweighted in healthcare. Mr. Lopez reported the Group (The Boston Company) has increased its position in technology by continuing to find real value, such as the addition of CISCO to its portfolio this quarter. Mr. Vellon inquired, if in regards to the economic sector weightings, were the holdings a conscience decision by The Boston Company for DWP's account. Mr. Lopez responded in the affirmative. Mr. Vellon also inquired when making purchases, for example, the purchase of CISCO, if the Group looks at the whole portfolio to make sure there is not an over-concentration in a particular security, because CISCO is also held by TCW Asset Management Company. Mr. Lopez clarified the portfolio manager monitors this globally and the Group's primary goal is to set up DWP's portfolio individually to benefit the retirees and has no knowledge of what TCW did inter-quarter with CISCO.

Mr. Lopez began reporting on the "safekeeping" (Highmark), stating its investment objective is to hold, monitor, and search for securities needing to be sold. He indicated the Group has found such securities and are monitoring them very closely.

He reported the portfolio was down 16.9%, which was better than the benchmark down 18.8%, and compared how various sectors in the portfolio performed versus the sectors in the Russell 1000. Mr. Lopez reviewed the individual stock contributions (how they added or subtracted value) and the economic sector weightings.

Mr. Vazquez inquired about the amount of cash in Boston Company's portfolio. Mr. Lopez responded there was $0 and as the dividends come in cash is "swept" out. He then concluded his presentation and asked Mr. Bowser to address the fixed income portfolio

1. **Standish Mellon Asset Management, LLC investment counsel third quarter report.**

President Romero recognized Mr. Bowser.

Mr. Bowser introduced himself and explained Standish Mellon Asset Management's responsibility is corporate bonds. He stated bonds are doing what they were meant to do, in terms of stability in the portfolio and have had high nominal returns over the past 10 years; and more importantly, recently in a soft spot in the equity market. He also reported portfolios have underperformed the benchmark and there are some buy and hold restrictions and yield objectives. Mr. Bowser added the corporate bonds have underperformed, done well, and increased in price but have underperformed treasuries. He depicted the performance through charts in the booklet (issued by Standish Mellon Asset Management). He expressed corporate bonds would do very well next year and, in time the Group would like to add the ABS (Asset Backed Securities) component, which has done very well in their other portfolios and he would like to discuss this with the Board as they move to a more discretionary portfolio.

Mr. Vellon inquired what ABS stood for and if it was related to derivatives. Mr. Bowser responded ABS stands for "Asset Backed Securities" and although these relate to derivatives under a very technical definition, they are really secured asset pools, funded in the capital markets and are much stronger than many corporate bonds. Mr. Romero inquired why DWP has not been exposed to them before. Mr. Bowser responded under the original guidelines it was not an allowable asset class to invest in and commented Mr. Dan Richter (Standish Mellon Asset Management) would like to address the Board on going forward on this matter. Mr. Bowser noted, in the Highmark portfolio, Highmark underperformed due to the corporate overweight. He stated the quality in the portfolio remains very high at AAA and has been the right place to be, since there has been a lot of volatility in the lower rate securities in the past few years.

Mr. Vazquez commented there has been an anomaly in that the portfolio has more risks, but it has not performed as well as the benchmark for the past few years. Mr. Bowser responded, within the corporate subsector there is less risk than the market, but corporate, as a whole, is riskier than treasuries. Mr. Mirisola inquired what the quality "B" bonds were in the Highmark portfolio. Mr. Bowser responded the analyst team at Standish developed a rating system and explained how the rating system worked, which is illustrated in a corporate bond ratings he handed out (issued by Standish Mellon Asset Management).

Mr. Bowser expressed the majority of DWP's holdings were either very solid companies or first mortgage debt, which has always shown significant resiliency in the face of pressure in the capital markets. Mr. Vellon noted in Mr. Bowser's presentation he stated, as a matter of policy for Standish Mellon, they are focusing on corporates, and inquired if this was across the board for all their clients or just for DWP as a particular client. Mr. Bowser responded it depended on the client's risk profile, adding the majority of their clients have some level of corporate exposure depending on their mandate. Mr. Bowser concluded his presentation by asking the Board if there were any more questions. President Romero thanked Mr. Bowser for attending the meeting, on a short notice, in place of Mr. Richter and both Mr. Lopez and Mr. Bowser were excused.

Mr. Lopez and Mr. Bowser left.

Mr. Vellon informed the Board President there was a time schedule to keep due to another meeting scheduled in the boardroom at 11:00 a.m.

Mr. James A. Tilton and Mr. Barr Z. Segal (TCW) approached the table.
Regular order of the agenda resumed.

3. **TCW Asset Management Company investment counsel third quarter report.**

President Romero recognized Mr. Tilton and Mr. Barr.

Mr. Tilton reported the market value of the equity portfolio as of September 30, 2002, was $1,383,000, but now it is $1,520,000. He compared the sector weightings of DWP and the S & P 500. Mr. Vazquez inquired if the numbers were correct under the S & P 500 on the pie chart in the booklet (issued by TCW) because the pie portion for consumer discretionary was smaller than the percentage amount. Mr. Tilton clarified the numbers were correct but the error was in the pie sizes within the graphs.

Mr. Tilton reported the number of DWP holdings was reduced from 115 at the peak, to 92, and the portfolio will also be losing Household International; which is being bought out at $30.00 a share (DWP's price $10.00 a share), producing a gain of about $12 million. He then compared DWP's portfolio characteristics to the S & P 500 and reported on recent portfolio changes (stocks acquired and sold). Mr. Tilton reviewed DWP rates of return stating equities were down 21.8%, the market for the quarter up 8.6%, and the sales/purchases were net plus. He also stated cash was raised from $0 to $40 million and $60 million was booked in gains. Mr. Vellon inquired if the $60 million booked in gains was referring to companies recently purchased or companies held over a long period of time. Mr. Tilton responded from companies held over a long period of time. Mr. Tilton asked if the Board had any question and Mr. Segal continued with the fixed income presentation.

Mr. Segal summarized the three fixed income portfolios stating the market value for the Retirement Plan was roughly $900 million, Death Benefit $25.3 million, and the Disability Plan $38 million. He stated, regarding the historical yield curve, there was a huge drop in interest rates and a rise in treasury prices during the quarter due to fears about the economy, the Middle East, stock market falling, etc. He reviewed DWP's fixed income quality rating and sector weightings of each portfolio.

Mr. Segal expressed TCW has observed Lucent for a long period of time and finds the company is in a lot of distress and the bonds are very volatile, which is endemic partially of the entire bond market. He stated TCW is losing confidence Lucent will make it being they have $4 billion in cash and burn $1 billion a quarter. He added, TCW has begun to sell Lucent starting with the Death Benefit Plan (where there was a little higher weight) at $0.43 compared to a cost of $0.84, or a 40 point loss, and they will continue to weed the rest out as soon as reasonable without causing dislocation in the market.

Mr. Vellon commented, not too long ago Mr. Segal came before the Board and made the statement Lucent was a prudent bond to have in the portfolio, and asked Mr. Segal if he recalled making this statement and was this a mistake on TCW's part. Mr. Segal responded, at the time, TCW felt it was prudent and thought the company was going to make it, but the last three months the businesses continued to contract. Mr. Vellon inquired how TCW explains this change in such a short period of time. Mr. Segal reiterated TCW changed their view on Lucent, first feeling they could stay with the company, but are now concerned it might not make it. Mr. Vazquez inquired how much stock was left in Lucent. Mr. Segal responded the portfolio still consisted of 1 million in Death Benefit Plan (4% of the Plan) and the large Plan contained 21 million (1.6% of the Plan). Mr. Vazquez inquired if this was the current market value. Mr. Segal responded it was par, so take 40% of this, adding the devastation in the corporate bond market has been the worst since the 30's.

Mr. Vellon inquired of Mr. Tilton how would he characterize the portfolio turnover for the quarter, and how it compares to their historical turnover and why. Mr. Tilton responded there was one large sale with Fannie Mae. Mr. Vellon inquired what the turnover was based on percentage. Mr. Tilton responded 1.5 billion and the sell of Fannie Mae brought $50 million. Mr. Vellon asked if it was the same as the historical turnover. Mr. Tilton indicated it was marginally more. Mr. Vellon then inquired why this was the case. Mr. Tilton responded he had the ability to procure some very good buys (Johnson & Johnson, Microsoft, etc.), had some outweighted positions and protected the gain on Fannie Mae. Mr. Vellon inquired if he had the ability to do this before full discretion. Mr. Tilton responded he did not have this ability before and the discretion has helped a great deal and he commended the Board, adding he would not have been able to buy Johnson & Johnson without the flexibility of full discretion. Mr. Tilton concluded his presentation and extended an invitation on behalf of Stephen McDonald (TCW) for the Board to visit their facility.

President Romero thanked Mr. Tilton and Mr. Segal for their presentation and they were excused.

Mr. Tilton and Mr. Segal left.

President Romero called for a recess at 10:03 a.m.

[Recess]

The meeting reconvened at 10:08 a.m.

Mr. Neil Rue (PCA) approached the table.

4. **Consideration and Board action regarding implementation of new Asset Allocation structure:**

03-32 a) Review and approval of Request for Proposal (RFP) for three asset classes so far approved by the Board (International Equity, Domestic Equity, Domestic Fixed Income).

President Romero recognized Mr. Rue.

Mr. Rue stated his presence at the meeting was to continue with the implementation on the Board's decisions over the last couple of months, indicating the next step of implementation was to discuss approving a format of an RFP, of which there has already been much dialogue with staff. He stated the RFPs within active equity, fixed income and international equity will look very similar, so the goal would be to approve the format on this RFP to avoid coming back to the Board and continually seeking approval for multiple RFPs each time. Mr. Vellon noted Ms. Bhatia worked with PCA and reviewed the RFP making sure all the requirements of DWP and the City were incorporated. He stated several items had already been discussed with Allan Emkin and anything else would be minor changes, and recommended adoption of the prototype RFP, which will vary, but the structure will essentially be the same.

Mr. Romero commented Mr. Mirisola had some concerns regarding the RFPs. Mr. Mirisola suggested a change in the RFP (Page 10, No. 10 under Personnel) indicating it should require a resume be submitted, along with the biographies of the senior management, so actual experience could be reviewed. He also suggested Page 10, No. 5 should state "regulatory investigation or action" along with an explanation. Ms. Bertrand inquired about the difference between regulatory action and regulatory investigation. Mr. Mirisola responded action could mean they are in the process of being censored and investigation means someone is just investigating. Mr. Rue proposed changing the wording to say "under current review" and this was agreed upon. Mr. Mirisola referred to Page 8 under Deadline and suggested, in addition to the two copies of responses to the RFP to be submitted to John Charley (PCA), extra copies be sent to the DWP Retirement Staff for the Board to review at any given time. A discussion ensued regarding the matter, but the Board consensus was against it. Mr. Romero requested the table on Page 11 reflect all the RFPs. Mr. Rue responded they would be included. Ms. Bertrand then moved adoption of Resolution 03-32 with the noted corrections. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand
Nays: None

03-33 b) Review and approval of Manager selection criteria for the three asset classes so far approved by the Board.

Mr. Rue indicated staff requested PCA develop minimum criteria for each of the searches and gave an example, explaining several of these criteria outlined in the memorandum provided, dated November 9 (by PCA). He clarified the Board need not be concerned with the criteria for active core search listed on the memos, because it was not part of the structure and these would be eliminated. Mr. Vazquez inquired if the criteria were developed independently or with input from staff. Mr. Vellon responded PCA and the staff are in agreement and the criteria listed are consistent with what has been his experience historically with other processes, but PCA developed the criteria themselves. Mr. Vellon emphasized the importance of the Board's understanding of the criteria, as this will be the basis to address the various firms if they inquire to why they didn't meet the minimum criteria. Mr. Vellon noted Resolution 03-33 incorporates Mr. Rue's memorandum of November 9, 2002 and he would add "as amended" due to the correction made. Mr. Mirisola inquired if the only information for the future RFP with changes is the minimum requirements and the benchmarks. Mr. Vellon responded in the affirmative and added these were basic standard criteria, automatically eliminating any candidate who does not meet these requirements. Mr. Mirisola then moved adoption of Resolution 03-33 with the noted corrections. Seconded by Ms. Bertrand and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand
Nays: None

03-34 c) Consideration of implementation schedule for the selection of Investment Managers for the three asset classes so far approved by the Board.

Mr. Rue indicated there was an error in the schedule, stating there would be no active core search and subsequently, the schedule dates would be moved up and all domestic equity searches will be completed by the end of March. He recommended the Board meet every two weeks, once the search starts, through the end of March with the dates scheduled tentatively. Mr. Vellon commented, for purposes of clarification, Resolution 03-34 be amended to reflect the correction made, and requested Mr. Rue send two memorandums with the corrected information to be attached (with the same date as the original memo). Mr. Vellon added, the resolution would call for the Plan manager to coordinate the meetings substantially in compliance with the search schedule herein adopted, but there would be changes based on the Board member's schedule, and staff would try to stay as close as possible to the schedule.

Mr. Rue explained if the Board approves the schedule, advertisements would go out for the passive from the press the following week, and two weeks later the active advertisements would be posted and hit the press the first half of December. Mr. Romero inquired if the advertisement and the posting is concurrently on the website. Ms. Bhatia responded the posting of the advertisement will state the RFP would be available on the website on a particular date and the same would be the case for the newspapers.

Ms. Calvache inquired if the advertising of the RFP would be ready by this week. Ms. Bhatia indicated staff would be contacting the press as soon as the resolutions were finalized and all depending upon their deadlines. Mr. Vazquez inquired, in regards to the timeframe for negotiating and finalizing of the contract, what was left to negotiate after the interviews were completed. Mr. Rue responded the fees would need to be negotiated. Mr. Vazquez indicated he would like to have a relatively clear idea beforehand of what the fees would be before approving a candidate. He inquired if the candidates would be seeing DWP's form of a contract for the first time. Mr. Vellon responded one could be supplied, but the provisions were outlined in the RFP. Mr. Mirisola added the previous process has been to include the contract in the RFP to be viewed by everyone up front and the attorneys can finalize the contract and RFP language into one single contract. Mr. Vellon noted one of the questions in the RFP is if the fees are negotiable, and if so, the Board would have to sit down and negotiate the fees with the candidate. Attorney Wilkinson interjected by stating the issue of the fee is generally addressed at the point of the finalist rather than being apart of the RFP process. Mr. Vazquez inquired if the dates scheduled were inflexible once the resolution is approved and if the respondents were notified of date changes. Mr. Vellon responded nothing was inflexible and the respondents would be told the dates are subject to change if the schedule of the Board members conflicts.

Ms. Bhatia commented initially the candidates are only given the dates to respond and when the interviews are scheduled they will be given those dates. Mr. Rue indicated PCA would change the wording on the dates to make it more flexible. Mr. Mirisola then moved adoption of Resolution 03-34 with the noted corrections. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Vazquez and Bertrand
Nays: None

The Board meeting was adjourned at 10:36 AM.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

VIKKI BURKS
Recording Secretary