

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

MINUTES – JANUARY 24, 2003

Present:

Javier Romero	President
Dan Mirisola	Vice-President
Lilly Calvache	Board Member
David H. Wiggs	General Manager
Ron Vazquez	Chief Financial Officer
Anne E. Cho	Commissioner
Norma Bertrand	Board Member

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Ellen Shimamoto	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 1:40 p.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated the full Board was present. President Romero thanked Board member Calvache and Plan Manager Mr. Vellon for attending this meeting on their day off.

PUBLIC COMMENTS

(See Public Comments on Page 5)

1. Approval of Minutes for the January 15, 2003 Board Meeting.

(No action was taken due to time constraints).

Mr. Kenneth Lombard, President of the Water and Power Board of Commissioners and Mr. Allan Emkin from Pension Consulting Alliance (PCA) approached the table.

2. Reconsideration of criteria for the selection of Investment Managers.

President Romero recognized Mr. Lombard.

Mr. Lombard explained the spirit of what the Big Board and the Department of Water and Power try to do, is to create an atmosphere that is inclusive and involves the participation of minority firms. He pointed out the current settings of the RFP's issued by the Retirement Board exclude minority firms from being able to participate. He added approximately three weeks ago, he was aware of what was

happening, he contacted Mr. Wiggs, Commissioner Cho and Mr. Vazquez and informed them that minority firms had been excluded. Mr. Lombard expressed awareness of concerns raised by Board members, such as the Department might be sacrificing returns while evaluating minority firms. He clarified he is not suggesting for the Board to look at firms that have not been successful. He noted what the Big Board has been able to do, with the help of Mr. Vazquez' expertise, is to level the playing field; to figure a way that minority firms can have an opportunity to compete. Mr. Lombard further suggested the best way to accomplish this, without having to redo the RFP's, is to put it on the big firms that are competing, i.e., to go to the firms that want the Department of Water and Power Employees Retirement Plan (DWPERP) business, and let them know this is another requirement, and for those firms not to come back to the Plan with sacrificing the return criteria, or costing the Plan in anyway. Mr. Lombard stated he is very passionate about this subject, because it is fair, adding he is in no way trying to push any particular firm, he is pushing a concept of inclusiveness that does not sacrifice, in any way shape or fashion, performance or other criteria.

Mr. Vazquez requested Mr. Emkin to address the concerns the Board had at the last meeting regarding whether the Board would be lowering their standards, increasing the risk, not exercising proper coverage insurance, or be getting the same quality by including minority firms. Mr. Emkin responded this is not something new. He noted the issue of expanding competition in the investment management world grew in the mid 1980's, when the public pension plans all across the country began doing exactly what the Board is planning to do. He explained twenty years ago, CALPERS and CALSTERS were internally managed, similar to how this Board is structured, and as they began to implement modern portfolio strategies, the public policy issues, which included being inclusive, went to the Boards, and many large public pension plans, charitable foundations, and some corporations made a conscious decision to either allocate part of their portfolio or develop a strategy that would give opportunities to organizations, which primarily in size or the length of the time of their track record could not meet the requirements. He added this has resulted in mixed results, there have been successes and there have been failures, but those successes and failures are no different than the success and failures of majority firms, considering this is a tough business with lots of winners and lots of losers. Mr. Emkin indicated, to say that this is easy and anyone can do it, would be a gross mistake in the facts. He added a large number of qualified organizations exist with a history running significant assets for all sorts of financial institutions, in matters similar to what this Board is trying to accomplish. He continued by noting the way to distinguish these organizations is they don't have the size required to manage a large portfolio and as a result of that, they were excluded from selection processes. Mr. Emkin advised, in his opinion, outreach strategies in no way shape or form would be a breach of duty, because there are excellent firms out there, but one has to find them. He indicated these organizations would meet any of the tests that the Board would impose, that are reasonable, as long as the Board recognizes they don't have the size and length of performing business.

Mr. Vazquez referred to questions raised relative to whether bringing a small firm, and allocating them \$30, \$50 or \$100 million to manage, would distort the overall make-up of the portfolio that the Board has under management. Mr. Mirisola commented the Board would not be comparing apples to apples and the Board should be looking at performance and relating business matters. He noted, one cannot compare the performance between a small manager that manages \$10 million with a firm managing \$500 million. Mr. Emkin confirmed this is true, and it is

a possibility, but added, that is why the Board goes through a diligent process and look at the fundamentals of an individual portfolio. He offered an example, if the Board was looking for certain characteristics for a large cap value manager, it doesn't matter whether one manages \$5 million or \$200 million dollars, but one will be looking for the same number of securities or record of volatility, the same dividend yield, etc. He emphasized, the size of the firm doesn't necessitate that they hold fewer securities and there is no correlation at all.

On Mr. Emkin's comments regarding successes and failures, Mr. Lombard noted the firms that have been successful, their success had been the result of their diversity, not in spite of, and there are quality firms out there, working hard in their performance. President Romero commended Mr. Lombard for his effort in coming before the Board with his suggestion. He added Mr. Lombard's suggestion to put it on the big firms, to show this Board what the intent is to support minorities, is reasonable.

Mr. Emkin suggested the Board determine a policy. He indicated his understanding of the discussion is the managers who would be hired, using the existing selection process, would use a variety of services that would be offered by women and emerging firms. He warned the Board, relative to retaining investment management firms, minority or women owned, he doesn't know any of the existing programs that have accomplished this, by doing a manager search and then telling the managers they need to hire another manager. He noted one could direct them or urge them to trade with brokers, urge them to use a variety of services and products provided by minority business organizations. Mr. Emkin stated he doesn't know of any example where they have hired a third party to invest part of the portfolio with them.

Mr. Lombard emphasized Mr. Emkin should inform the firms to think "outside the box" and to be aggressive in how these firms attempt to put this participation together. He pointed out WPERP is a significant business to any firm, and he is confident the prospect firms will respond back with all sorts of ideas.

Mr. Emkin expressed he had two concerns, the first is he would hate to see it fail, by going through the process and the selected managers in turn don't know what is expected of them. He added the only way they are going to know what is expected of them, is to be given notice so they can respond and meet the intent of the Board. He indicated this can be done quickly, but it is different from the original RFP's that were sent out, because the Board would now be asking the firms to do something that was not in the RFP's, although this doesn't mean the Board cannot do this. He suggested the Board can look at their representations, who they work with, and services they are going to use, etc., as opposed to going through the process and selecting a manager and then that manager saying their firm cannot do it. Mr. Emkin emphasized that in order to accomplish this, the requirements need to be communicated to the prospective firms, immediately, so that they can start working on this requirement.

Mr. Wiggs inquired of Mr. Emkin, what would be a reasonable time for those management firms to respond to the Board's requirement of including minority firms. Mr. Emkin responded this can be done very quickly. Some discussion ensued regarding Proposition 209. Attorney Wilkinson advised Proposition 209 bars strict set aside X percentage to go to women or minority firms. He further advised this cannot be done, however, making more opportunities available are not barred by Prop 209 and these are not strict race and sex based decisions.

Commissioner Cho noted, when this item came up, at the last Board meeting (when the issue was raised to amend the RFP's to include more members of the universe to participate), it wasn't suggested to lower the standards or altering the standards in any way. She clarified, since it was pointed out to the Board women and minority business were being excluded, it is the Board's duty to fix it before the RFP's close, even if the RFP's already closed. She expressed agreement to find a way to include smaller firms, while this would not be a concept to put a firm ahead of another, or putting women ahead of somebody else, and this is rather a concept to level the playing field.

Mr. Emkin stated PCA has received 85 responses to the various RFP's, and one or two RFP's have closed. Mr. Vazquez suggested for Mr. Emkin to select a short list from the respondents, and notify them what the Board is planning to achieve in terms of being inclusive. President Romero stated the short list is already done and PCA has ranked the responses, and notified the Board which investment companies qualify and which ones did not qualify, according to the required specifications. He added the ranking was done according to who PCA feels is best for this job. President Romero suggested a secondary ranking could be who has the best plan for minorities and evaluate them on that basis.

Mr. Emkin recommended notifying the firms in the short list, stating clearly the Board has adopted a policy of inclusion and for them to show their best efforts on how they would meet this goal, because this will be part of the Board's selection process, letting them respond to this at the time they are interviewed.

Mr. Vazquez recommended implementation of a process to notify the firms in the short list, and ask them to make part of their presentation what they can do with this particular area and through what methods. He also recommended for the Board to adopt a policy, in a future meeting, to set standards/goals for the Board being inclusive in all entities (contracts) doing business with the Board.

Mr. Wiggs indicated, since everybody seems to be in agreement, to prepare a document stating what the Board wants and advise the firms their response be part of their presentation. Mr. Emkin stated that PCA can prepare this letter and have this delivered to the firms as soon as Monday stating that the Board has taken this action, which is important and to explain in detail, how they respond to meeting these concerns. President Romero requested he be given the opportunity to review this letter before Mr. Emkin sends it out. After discussion, Mr. Wiggs moved to write this policy letter and for Mr. Emkin to draft it and get it approved by President Romero, and evaluate the firms when they give their presentation. Seconded by Ms. Bertrand and carried unanimously after the following vote:

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

President Romero thanked all Board members for attending this meeting, and for how well they all worked together. He also commended Mr. Vellon for a fantastic job he has done as well as for having the minutes of the recent meeting done in time for today. Mr. Vellon clarified the minutes were done in a timely manner, primarily on the initiative of Ms. Vikki Burks who worked overtime and who set up this meeting and wanted to have the minutes available for the Board members and for President Lombard.

PUBLIC COMMENTS

President Romero inquired if there were any requests for public comments and there were none.

Ms. Calvache took the opportunity to state Mr. Lombard's explanation helped her understand the process better and she feels more comfortable with the decision taken by the Board.

Mr. Vellon thanked Mr. Lombard for attending the meeting and recommended and urged him to set up periodical meetings with Mr. Romero, as the elected member and President of this Board, to enhance communication. Mr. Vellon also indicated it makes a whole difference for the Board to hear Mr. Lombard's concerns directly from him, versus hearing the concerns, second hand, at the last meeting, wherein the idea sounded very different from what has transpired today. Mr. Lombard welcomed Mr. Vellon's idea and indicated he will have staff schedule these meeting on a recurrent basis.

The Board meeting was adjourned at 2:30 p.m.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary