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

MINUTES – JANUARY 29, 2003

Present:

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

Absent:

Anne E. Cho	Commissioner

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Ellen Shimamoto	Assistant Retirement Plan Manager
Vikki Burks	Recording Secretary
Mike Wilkinson	Deputy City Attorney
Neil Rue	Pension Consulting Alliance

President Romero called the meeting to order at 10:15 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there is quorum of the Board present.

PUBLIC COMMENTS

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

President Romero took the opportunity to refer to the letter drafted in conjunction with PCA, ultimately mailed to the three finalists passive management firms considered by the Board. He indicated there was an initial draft prepared by PCA (copy distributed to Board members) and, at his request, it was edited to enhance the creativity of the managers on how they could include women and minorities. He added the letter was also edited as to the list of carbon copies, and Mr. Lombard's name was removed because he is not a member of this Board and he would receive his copy from his representatives on the Board. President Romero stated the revised letter was sent out on Friday, January 24th, at 7:00 p.m., and he approved the final draft, and Mr. Vellon only acted as Secretary to the Board, yet he has received a lot of pressure on the matter. Discussion ensued regarding the contents of the letter, before and after the edits, and the timeliness of carbon copies sent to the Board members.

Mr. Vellon stated, for the record, he appreciated Mr. Romero taking responsibility for the edits to the letter. He indicated the final letter was well written and it should be a credit to the joint efforts of Mr. Romero and Mr. Rue (PCA). He stated, under the Board's motion, Mr. Romero was to approve such letter, and he found it remarkable a final version was mailed by 8:00 p.m., considering the Board's action had taken place just hours before (early afternoon).

Mr. Mirisola noted, under public comment, the Board of Water and Power Commissioners may very well become fiduciary to the Plan by playing an active role toward the Board's manager selection process. He suggested Attorney Wilkinson advise the Commissioners accordingly. Mr. Wilkinson clarified Commissioner Lombard appeared before the Board as an individual and he was not acting in a capacity representing the entire Board of Commissioners. Mr. Wilkinson added Commissioner Lombard has a fiduciary responsibility to the Board of Water and Power Commissioners, but the responsibilities as to the decisions made with regard to this Board, rest with the Retirement Board members.

Mr. Mirisola inquired if Attorney Wilkinson considered that opinion to be the same as if this Board were talking separately with the consultant, and moving policy in a particular direction. Mr. Wilkinson stated the policy is set within the members of this Board. Mr. Mirisola then requested Mr. Wilkinson research this, under Article 2 of the City Charter, and he (Mr. Mirisola), as a Board member, asks for Attorney Wilkinson's legal opinion.

Mr. Wiggs clarified this Board makes decisions, and Commissioner Lombard does not have any decision-making authority whatsoever. Upon more discussion, Mr. Rue acknowledged PCA had been in contact with Commissioner Lombard. More discussion ensued relative to such contacts. President Romero noted Mr. Mirisola requested some type of research from Attorney Wilkinson.

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

Mr. Vellon indicated the January 15, 2003 minutes were submitted for approval. President Romero stated there was a correction on the minutes of January 15, 2003, Page 1.4, second paragraph, four lines down, it states, "He stated that there have been discussions in the past with risk management regarding insurance and a decision was made to lower insurance requirements". President Romero clarified he did not make this statement and it should be stricken from the record. Mr. Vazquez moved approval of the minutes as corrected. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

2. Interviews and possible selection of Investment Management Firm (from those responding to the Plan's Request for Proposal – Russell 1000 Index):

Mr. Rue, of PCA, explained the Board will be interviewing five investment managers for the potential selection of one or more for the passive domestic equity portion as approved by the Board in prior meetings. Mr. Rue indicated he would be referring to the PCA booklet, which includes a summary of the process.

Mr. Vazquez stated Mr. Rue had reported Barclay's Global Investments did not respond to the RFP because the Board did not provide them with a statement of investment policy of directives and guidelines. Mr. Vazquez inquired of Mr. Rue where the Board stands in the development of these guidelines.

Mr. Vellon stated part of the asset allocation process includes the Board's re-drafting of the investment guidelines, for the overall Plan, followed by specific guidelines for the specific managers to be hired. Mr. Vellon continued to say Mr. Rue has submitted draft guidelines which will be presented to the Board for approval, and these will be placed on the agenda before the Board finalizes a contract with a new manager. Mr. Rue reported the draft guidelines provided by PCA refer to passive equity, and is the first step.

Mr. Vazquez indicated he would like to get highlights of what has being presented to the Board relative to the large core growth search. Mr. Rue proceeded to review PCA's insert titled, "LADWP, Summary of Manager Candidate RFP Statistics (large core passive)". He reported Page 10 of the PCA booklet shows how the companies were ranked with regard to the organizational issues. He noted, with respect to Northern Trust and Merrill Lynch there is a push, and there is marginal trade-off between the two firms. He added Northern and Merrill were close for third, therefore, the competition is between the four. Mr. Rue continued to say Northern met all of the qualifications and Merrill met all except one with regard to how much assets they have in Russell 1000 product – they do not have any, but they manage Russell 1000 value index product, Russell 2000 index product, and Russell 3000 index product.

Mr. Rue referred the Board to Page 12 of his report and stated the four firms, Mellon, State Street Global Advisors (SSGA), Merrill Lynch, and Northern Trust, have very equivalent performances, and it comes down to marginal issues. Mr. Vellon inquired if Mr. Rue was referring to tracking when speaking of performances. Mr. Rue replied tracking shows up on absolute performance on the next pages (after Page 12) including trends in the tracking error. Mr. Vellon inquired who has the best and the worst ranking error of the four. Mr. Rue replied Northern Trust and SSGA were tied in terms of tracking error, Merrill Lynch does not have a Russell 1000 product, and Mellon Capital's tracking error is a little bit greater than SSGA, and Northern Trust. Mr. Rue continued to say AllianceBernstein is upper in certain spots, and from a performance perspective, there is a qualitative difference between AllianceBernstein and the other four. After more discussion, Board members agreed to proceed with the interview process.

Mr. Richard Forster, Managing Director of Marketing, Mr. Thomas F. Loeb, Chairman and CEO and Warren Chiang, Director of Equity Portfolio Management (all of Mellon Capital Management) approached the table.

a. Mellon Capital Management

Mr. Forster provided the board with background information about Mellon Capital. He stated Tom Loeb and Bill Fouse founded Mellon Capital in 1983, and it is based in San Francisco, California. Mr. Forster informed the Board Mr. Loeb and Mr. Fouse are recognized industry leaders in the quantitative and indexing world. Mr. Forster continued to say Mr. Loeb ran the first index fund in the country. He added, Mellon Capital has $83 billion in assets under management and indexing is the platform on which Mellon Capital's strategies are built. He noted, Mellon Capital does indexing, enhanced indexing, tactical asset allocation, and, more recently, market neutral and hedge funds. He explained, at the core of Mellon's strategies they start with Index platform, and build up from the index funds. He reported Mellon Capital is wholly owned by Mellon Financial Corporation and is one of 12 or 13 investment firms of Mellon. Mr. Forster referred the Board to Page 3 of their handout showing a timeline of innovations. He introduced Mr. Loeb, who is the only one who has been with the company for 30 years.

Mr. Loeb stated he ran the first index portfolio, which actually was equal dollar weighted New York Stock Exchange index portfolio, the first one ever, started in 1971. Mr. Loeb stated he ran the first S & P 500 index fund, both at Wells Fargo, in November 1973. He also stated he authored something called "Transition Management" where one actually moves from an active portfolio to an index fund, such as if one were to terminate an active manager and control the risk. Mr. Loeb stated his first 10 years were at Wells Fargo and he started at Mellon Capital in 1983 with William Fouse, and through time they developed a lot of different index fund strategies. Mr. Loeb added Mellon's index funds track the indexes very closely and stated he and his colleagues will show the Board how judgment is used to consistently add extra return on top of the index fund exposure.

Mr. Rue pointed out the years of experience Mellon management has and also the fact this group has worked together for a long time, which is relatively unusual for this business. Mr. Rue stated the top five people's careers have virtually been together at Mellon, managing first Wells Fargo, and now Mellon Capital for the last 20 years. Mr. Rue stated Mellon has a very fertile research group, with 10 Ph.D.'s actively doing research on all of Mellon's strategies trying to improve what the company delivers to clients. He referred to Mellon's larger public fund relationships/clients, which Mellon has worked with for a number of years. Mr. Rue stated there is a full list of over 300 clients in the appendix.

Mr. Chiang, Senior Portfolio Manager, stated there are 19 portfolio managers at Mellon, and four equity traders. He explained their portfolios are fully invested (meaning they are always holding what they should be holding; there is no cash or there is minimal cash in the account) and they are well balanced. He also stated Mellon has always felt cash is almost an evil, because if one has cash, it has to be reinvested, which incurs trading costs and tracking differences. Mr. Chiang referred to tracking errors occurring during the Russell rebalance, which happens once a year on June 30th, with a change of constituents that the benchmark will be going into - May 31st the issue of preliminary index.

Mr. Chiang referred to Mellon's ability to take advantage of appropriate crosses. He stated Mellon goes through several crossing networks first, including unit crosses for contributions and redemptions, second, the internal cross network, which is run internally, third, Mellon looks external for external crossing networks (such as ITG positive or S & F) and finally, Mellon goes through the open market for trading. Mr. Chiang continued to say the performance of Mellon's Russell 1000 over the last five years has been 16 basis points above the benchmark, which is very substantial.

Mr. Chiang continued to say Mellon takes advantage of market changes and really makes sure they are not taking the easy way out. He added an index is not necessarily a passive process.

Mr. Mirisola inquired if it was obvious, in the end, most indexers pay the inflated price, because they have to transact on the close on a particular day. Mr. Chiang responded that no one else has incentive, including hedge funds, to move that price up. It has to be indexers moving that price up artificially.

Mr. Vellon asked Mr. Chiang in terms of the Russell 1000, what the experience is in terms of the deletes in June, whether they delete more than they add. Mr. Chiang responded that typically they add more in weight, because they are adding companies that increase in capitalization. Mr. Chiang continued to say Russell ranks all their companies by capitalization and the top 1000 are the ones in the Russell 1000.

Mr. Vellon asked what the level of change Mr. Chiang sees as far as turnover. Mr. Chiang responded the average turnover of the Russell 1000 is about 10 percent a year.

Mr. Vellon asked Mr. Chiang if he could explain, from Mellon's proposal, "full replication" technique compared with "sampling" strategy. Mr. Chiang responded by first giving the definition of the two techniques. Mr. Chiang stated "full replication" means one would hold every member of the index at very close to the benchmark weighting. He noted a "sample" strategy is when one would only hold a subset of the Russell 1000, such as 800 stocks, and use some type of optimizer to decide the best 700 or 800 stocks to hold, which will replicate the benchmark performance. Mr. Chiang stated Mellon believes if the account is large enough, full replication is the cheapest way to deliver the benchmark return to their clients. Mr. Chiang continued to say in a full replication there is never a need to rebalance unless the index changes. He stated if one uses sampling, because of the misweights/differences from the benchmark, if nothing changed in the index, one could still have to do rebalancing trades.

Mr. Vellon asked Mr. Forster to explain what are the cost differentials for commingled versus a separate account. Mr. Forster responded the collective fund is a little more cost effective, because the economies of scale, but Mellon would have a separate account for the DWP, because of its size. Mr. Forster continued to say it is slightly more costly for a separate account because it is another portfolio to manage, as opposed to coming into collective fund. Mr. Forster explained in either case, it is the DWP's decision which way they want to do it, and the fee difference is another $50,000.00 over the fee one would pay in the collective fund.

Mr. Vellon inquired of Mr. Forster if the Board decided on a commingle approach, would they own a portion (sample) of the larger index, or would they own the 1000 securities. Mr. Forster responded they would have a pro rata slice of the fund. Mr. Vellon inquired if the Board chooses a separate account, if the DWP would have direct ownership of the 1000 stocks. Mr. Forster replied affirmatively.

Mr. Vellon asked Mr. Chiang what the liquidation notice requirement would be if the DWP has an index fund and needs some money out of it, what kind of requirement does the Board have to give Mellon Capital in order for the DWP to receive the cash. Mr. Chiang replied the typical cut-off is the "T" minus 2 notification (T is trade day) or 48 hours before trade day. Trade day minus 1 day is still possible, and even on trade date it is still possible, even though this would be very difficult. He added Mellon Capital will give it their best effort, but cannot promise anything. It would depend upon what Mellon internally crosses the night before.

Mr. Vellon inquired if in crossing, either buying or selling, it could come out of Mellon's own account (inventory). Mr. Forster replied never. Mr. Vellon then inquired if Mellon had the capability of doing a transition program, and if Mellon has a way of objectively measuring whether the transition works or not. Mr. Forster responded affirmatively and stated it is outlined in the next pages of their booklet under Mellon Transition Management Services, their trading company and joint venture of Mellon's. Mr. Loeb added Mellon would measure whether the transition works against a number of different objective benchmarks. Mr. Forster noted the typical measurement is DWV (daily weighted volume) in which one would look at the day one is trading, versus what the average trades were that day across the whole market, and try to beat that weighted average.

Mr. Vellon inquired if the fees are still negotiable as stated in Mellon's proposal. Mr. Forster answered these would be to an extent.

Mr. Vazquez stated when Mellon responded they said they had $62 billion, and now they are saying they have $83 billion under management. Mr. Vazquez inquired if that was just normal growth. Mr. Forster responded there was growth, but of the $83 billion, $58 billion is pure index, the rest is asset allocation strategies. He added Mellon has a lot of asset allocation strategies, but use indexes to implement those asset allocation decisions and $58 billion is Mellon's equity index.

Mr. Vazquez indicated the Board sent Mellon Capital something late last Friday with regard to whether Mellon could work with this Plan on some inclusion policy. Mr. Forster responded affirmatively and stated they have other clients who have inclusion policies for disabled veterans, women, and minority owned enterprises. He added it is better accomplished in a separate account, than in a collective fund in terms of targeting brokerage. Mr. Vellon indicated a copy of a response from Mellon on this issue was received this morning and was distributed to Board members. Mr. Forster indicated if the Board wanted to set up something like the above, they would work with the Board on setting something up.

Mr. Vellon inquired why it was more difficult to do it in a commingled account. Mr. Forster indicated it was difficult to allocate trades in the collective fund for one client's specific objective, when the fund is shared with 25 other investors. Mr. Vazquez inquired what the advantages and disadvantages are of the commingled versus the separate to the Board. Mr. Loeb responded the primary difference is on separate accounts one can vote the proxies as one sees fit.

Mr. Forster stated, depending upon the Plan's custody relationship, he did not know what the custodian would charge in a separate account, because the Board will hold all 1000 of stocks as opposed to holding a one line collective fund.

Mr. Chiang added a third major advantage of a commingled fund is the cash flow has other participants that will help fix the small pieces of turnover. Mr. Chiang added in the commingled fund, the turnover was about 2.8 percent last year, whereas, the turnover of the fund was actually 10 percent. Therefore, in a commingled fund one saves because they pay the costs that are coming out of the fund.

Mr. Vazquez inquired if the tracking is fairly close between a commingled account and separate accounts. Mr. Chiang responded definitely. He explained the tracking would be different and the cost would be a little higher (under a separate account). Mr. Forster added if the Board looks at the life of this fund on the performance page, the standard deviation first is the benchmark, which is the nomenclature Mellon uses for risk, and it is actually a little less than the benchmark. Mr. Forster noted Mellon has done a little better job and added five basis points. The representatives of Mellon Capital thanked the Board and left.

Messrs. Joseph E. Silver, Director of Marketing, Richard (Rick) Vella, Managing Director, Obie L. McKenzie, Managing Director and Ms. Debbie Jelilian, Director, from Merrill Lynch approached the table.

b. Merrill Lynch

Mr. Silver introduced the Merrill Lynch representatives and summarized their history working together. Mr. Silver stated Merrill Lynch is one the world's largest asset managers at $452 billion, of which $233 billion represents their institutional clients. He reported Merrill Lynch has over 600 investment professionals in their organization.

Mr. Vella stated he, Mr. Frank Salerno, and Mr. Sidney Hoots have been together for 17 years, first managing index funds at Bankers Trust. He noted in 1999, Frank Russell (a consultant) reported there was $116 billion in assets in Russell index funds, and at Bankers Trust, they managed $80 billion (two-thirds). He elaborated on experience in Russell indices. Mr. Vella added, after 1999, Bankers Trust was taken over by a foreign bank, so Mr. Vella, Mr. Salerno, and Mr. Hoots, and the bulk of the indexing team left Bankers Trust and went over to Merrill Lynch to start the indexing business, and have been there for four years.

Mr. Vella explained Merrill Lynch's philosophy is not just to replicate the return of the given benchmarks, but also to take that extra step to get the index plus a little more through low cost execution. He stated Merrill Lynch is the largest equity-trading house in the world, which gives them an advantage in obtaining best execution. He explained Merrill Lynch's ability to cross trades, outside of the market, so they can actually pick the stocks up at zero commission cost.

Ms. Jelilian explained she has been involved with the Russell index change of June 30th, and there is about three percent (each side) turnover, which one needs to sell and buy on July 1st. Ms. Jelilian stated this is a highly monitored event in the brokerage community, and there is a lot of information on the street, which could potentially impact the prices negatively. She noted Merrill Lynch uses this opportunity to seek as much internal liquidity, so they can trade naturally with their other portfolios and typically over half of their required transactions across the board are transacted at zero commission cost, which adds up to savings to their Russell portfolios, and Merrill Lynch uses these opportunities to rebalance all their portfolios. She explained change to the index can be announced retroactively causing unintended tracking error in their portfolio.

Mr. McKenzie stated his experience in the last 30 years has been to service Boards like the DWP's and one of his favorite topics is "inclusion". He stated he was dedicated in involving minorities in his business dealings. Mr. McKenzie reported Merrill Lynch has a database of emerging funds to include minorities and explained several revenue streams accrue to the emerging managers, or to the emerging financial institution community, when doing business with this fund, with this Board. Mr. McKenzie continued to say Merrill Lynch has relationships on brokerage commissions, transition management, recapture commissions, and investment banking fees. Mr. McKenzie stated workforce diversity is their philosophy and added, outside of financial institutions, Merrill Lynch has been involved in the community. He reported one of his colleagues was with the California Partnership, which began in 1996, and Merrill Lynch has invested over $250 million in the Los Angeles, in the Bay Area, and Orange County to do affordable housing loans to the less advantaged, small business enterprise loans, grants, and philanthropy.

Mr. Wiggs inquired, regarding the inclusionary policies, if it is costing the client more money, or if they have not met some of their goals. Mr. McKenzie responded in the negative and stated they could not do the business if it cost more money. Ms. Jelilian clarified Merrill Lynch is subject to best execution in every trade and this is closely monitored internally. Ms.

Jelilian stated a number of her index portfolios have encouraged the use of minority firms for some of their brokerage transactions, to the extent that they deliver best execution. The minority firms are used just as they use Goldman Sachs, Merrill Lynch, or Morgan Stanley and Merrill Lynch has developed relationships, which they feel give the best service for the types of transactions they do.

Mr. Vazquez inquired, with regard to transition management and transition costs, if the Board can expect about the same from any portfolio manager. Mr. McKenzie responded in the negative indicating there are costs one can see and costs one cannot see when moving money. He added small firms cannot handle a transition because they do not have the flow, and one would want both internal and external crossing capability. Mr. McKenzie stated Merrill Lynch handles one in every six trades on the New York Stock Exchange so they have the volume. Mr. McKenzie continued to say Merrill Lynch went to the market and interviewed minority firms that have solid trading desks and set up partnerships.

Mr. Romero inquired if there was a minimum of experience to require for a minority business before they take them on. Mr. McKenzie responded Merrill Lynch does the due diligence first, to see if they are capable, but they do not require a minimum amount of years of business. Mr. Romero commented he would not put his money with a company that has only been in business for a year. Ms. Jelilian indicated Merrill Lynch has very stringent credit requirements, taking a couple of months; they have to send their financials which are audited, and Merrill Lynch is very risk averse to adding broker/dealers which are not well capitalized. She added they also have to be annually reviewed. Mr. Romero inquired if the Board could create a report regarding the executions Merrill Lynch has done with minority brokers. Ms. Jelilian and Mr. McKenzie responded affirmatively and Mr. Vella added it is their goal to make sure there are no conflicts of interest and Merrill Lynch stands behind all action taken by the minority firms. Mr. McKenzie stated Merrill Lynch clears for 16 women and minority owned firms, they handle the exchange of cash and securities for those firms and can provide this to the Board.

Mr. Romero made reference to Merrill representative's comments to the effect there cannot be more cost to the Plan when using minorities or when using their own in-house brokerage firms. He then inquired if, that is the case, Merrill Lynch would be receptive to a 100 percent client indemnification for any losses incurred using such minority firms. Mr. Vella responded they would have to consult the treasurer, but there are natural indemnifications for those trades, given that Merrill Lynch clears for those firms. Mr. Romero inquired if they could have a separate indemnification protecting the Plan 100 percent. Mr. Vella responded they can work with that, and stated there is no risk in that the risk is all a fail, if the trade does not settle. He reported they do not pay out until the stock comes in, so there is no money leaving which minimizes risk.

Mr. Romero indicated they are doing their due diligence in hiring a money manager, but there is also an expectation for due diligence on the minority managers, such money managers subcontract. He expressed the primary Board consideration must be selecting the best investment manager and any inclusion policies must be a secondary consideration. Mr. Vella emphasized Merrill Lynch's standards are very high for both capital and credit, and the majority of firms do not make it through the process.

After more discussion, Mr. Vellon noted Merrill Lynch's proposal quoted 1.5 basis points. He inquired if that was negotiable. Mr. Vella responded affirmatively. Mr. Vellon continued by stating Merrill Lynch's proposal indicates the basis points they charge are separate from the custody and fund accounting. He inquired what that meant, considering the DWP has a separate custodian bank. Mr. Vella responded the Board could hire Merrill Lynch as an investment manager and then can designate an account at Bank of New York, which is the account they do their transactions in, which they call a separate account. He explained the other alternative is a commingled account where Merrill Lynch chooses the custodian and fund accountant, and then the DWP would go into a pool of which other pension plans have gone and, in this case, the DWP would be owning shares of a collective fund, owning a pro rata share, based on the amount invested, wherein the investment management and the custodial charges are bundled. Mr. Vella added if the Plan uses a commingled account, there would be savings in terms of custody costs at BONY, because they would not be holding those assets, they would not be following the stocks or processing dividends, as this it would be done by the custodian in Merrill's commingled fund. Mr. Vella indicated if the Board chooses the separate account, the account stays at BONY and the Plan owns every share directly. Mr. Vellon inquired if when Mr. Vella was discussing custody and fund accounting, if he was referring to the assumption the Board would select a commingled account format. Mr. Vella responded affirmatively, and stated if the Board gives them a commingled account mandate, their investment management fee is the same, 1.25 basis points, but there would be additional charges to the portfolio for the custody that BONY no longer does, which runs about .4 of a basis point.

Mr. Vellon inquired why Merrill Lynch used stratified Sampling, as opposed to Full Replication in their process. Mr. Vella responded Full Replication implies the census approach, with the idea you buy almost every stock in the index. He indicated Merrill Lynch believes you should look at the individual stocks and look at the average daily volume of the stocks, as some stocks are relatively illiquid. He noted some small stocks (within the index) are excluded because of the high cost of obtaining them, as these do not trade that frequently.

Mr. Vellon inquired how many stocks are typically under their stratified sampling technique in the Russell 1000. Ms. Jelilian responded it is approximately 970 as some stocks have very high transaction costs and these are not needed to track the index properly. Ms. Jelilian explained if one looks at Merrill Lynch's portfolio versus a Fully Replicated portfolio, one could conclude it is replicated, because the Russell 1000 is liquid. Ms. Jelilian continued to say this allows Merrill Lynch to set wider tolerances in the Russell 2000 index or emerging markets, where Merrill Lynch can be within two to three basis points of every stock, whereas, in the Russell 1000 they are under one basis point, preferably weighted to every step plus or minus one.

Mr. Vellon inquired as to what kind of liquidation notice, if the DWP needed the cash, would the Board have to give them. Ms. Jelilian responded on the commingled fund or separate account they would like one business day notice, as cash is available at "T" (trade date) plus one if it is a small amount and there is cash in the portfolio, or "T" plus two if they have to sell soft securities to make the cash available.

Mr. Vellon inquired if they have reported one of their brokers is Merrill Lynch, how do they deal with the potential implication of conflict. Ms. Jelilian responded there is a "Chinese wall" and many client's have allowed them to trade with Merrill Lynch, subject to best execution, on other accounts, if these are qualified accounts, they cannot legally trade with them because they are subject to FDC rules, ERISA rules, and client specific guidelines. Ms. Jelilian continued to say, even though Merrill Lynch is available, the majority of their portfolios do not do significant business and their compliance group gets the confirms from all of their Merrill Lynch trade and checks the commission rates to make sure there is no other commission rate in the portfolios higher that day, and they will compare the comparable trade to a similar transaction across Merrill Lynch infrastructure.

Mr. Vellon inquired, since Merrill Lynch is such a huge company, if it is conceivable they can either buy or sell from their own inventory. Ms. Jelilian responded this is called an agency cross and they are permitted to conduct those per the client guidelines and direction, but they would not be able to cross ERISA portfolios. She continued to say Merrill Lynch does not carry a big proprietary book, like brokers such as Morgan Stanley or Goldman does. She added they only commit capital to facilitate clients' trade and it is generally large portfolio trades for transition clients. Ms. Jelilian stated she has never done a trade with Pierce, Fenner, & Smith inventory because there really is not any.

Mr. Vellon inquired if it made a difference, with regard to Merrill Lynch implementing their "inclusion", if the Board goes into a commingled account versus a separate account. Mr. McKenzie responded they could implement their policy either way, because there is trading activity on both accounts and there is transitioning whether it is going from a legacy portfolio into a commingled fund or a legacy portfolio into a separate account.

Mr. Mirisola inquired if Merrill Lynch would be able to provide an estimate of how closely they think they would track, had they been managing the Russell 1000 portfolio, compared to the other four firms. Mr. Vella referred the Board to Page 11 and stated they run six separate Russell 3000 index funds, and all six show the same results, and, since inception, they are all ahead of the benchmark by approximately 19 or 20 basis points. Mr. Vella continued to say the Russell 1000 is the largest 1000 stocks by market capitalization, the Russell 3000 is the largest 3000, and it is dominated by the top 1000. He noted given the make-up of the Russell 3000, the Russell 1000, by dollar value, makes up 92 percent of the Russell 3000. Mr. Vella referred to their other funds such as the S & P 500 portfolio which, since inception, moved four basis points ahead, the Russell 2000 was 11 basis points ahead since inception, the Mid Cap S & P 400, (which overlaps 50 percent with the Russell 1000) has 19 basis points of positive outperformance since inception, and the last one is an international portfolio with a positive 7 basis points. He emphasized they are not only replicating, but they are delivering the data returns on the index. Mr. Vellon inquired if Merrill Lynch had a Russell 1000. Ms. Jelilian responded in the negative but they do have a Mini-Russell 1000 Value. After a brief discussion, the representatives from Merrill Lynch were excused and left.

Mr. Michael A. Bowman, Mr. Brad Hilsabeck, Mr. Eric Brandhorst and Ms. Sue Bonfeld (State Street Global Advisors) approached the table.

c) SSGA

President Romero recognized the representatives from SSGA.

Mr. Bowman thanked the Board for the opportunity to give a presentation, stating State Street would be very proud to have LADWP. He proceeded to introduce his associates, including their geographic location and experience.

Mr. Hilsabeck summarized areas, in which State Street focuses on, such as global investor services, global markets, and global advisors in money management. He pointed out State Street is an organization of unquestioned integrity and takes their reputation very seriously. Mr. Hilsabeck reported State Street was the largest tax-exempt manager in the U.S., adding 43% of their assets ($300 billion) are equity index assets, which is a testimony to their skills.

Mr. Hilsabeck reported State Street was headquartered in Boston where DWP's portfolio would be handled. He added there was a team of 20 people in San Francisco to meet the needs of the clients who are located on the West coast.

Mr. Brandhorst outlined what State Street views important in index fund management and the criteria the Board should use to evaluate the different managers. He stated there are three import criteria to focus on which are size (which buys very significant economies of scale and cost advantages when trading), investment infrastructure (experience of team, broadness of product lineup, and assistance in transitions) and commitment to passive investment. He outlined State Street's specific areas in which they demonstrate competitive strength such as an experienced team, their size, liquidity, enormous breadth of products, transparency, practical research and advice and flexibility. He added State Street has an unparalleled ability to cross (meeting in the middle and trading at one price and not in the market where there is a bid offer spread) and save the client a significant amount of money on the transaction costs. In regards to the Russell 1000, Mr. Brandhorst reported State Street has $45 billion in asset fund management, does all the Russell benchmarks and are in tune with the challenges that come with annual reconstitution index change trading.

Ms. Bonfeld summarized State Street's capabilities with regards to transition management, stating it is a strategic function that is part of the partnership they have with their clients and is as important as the ongoing management of the portfolio. She stated, when looking at transition management, it is viewed in four categories: transparency, liquidity, performance and experience.

Mr. Vellon inquired if the 2.5 basis point fee quoted was for a commingle or separate account. Mr. Bowman responded it would be the same for either account. Mr. Rue indicated the fee had changed in DWP's favor since State Street's original response to the RFP, which is now at 1 basis point for the first $1 billion and ¾ of a base point (or .75) thereafter. Mr. Hilsabeck clarified there was a custody fee in their commingle fund of 1 1/2 basis points, and the custody fee is netted out of the return. Mr. Vellon inquired if the custody was under the commingle and if DWP uses their own bank would it still apply. Mr. Hilsabeck responded under a separate account whatever the Plan bank charges for custody of the account would be the Plan's cost. Mr. Vellon inquired if State Street's proposed fee was negotiable. Mr. Hilsabeck responded the 1 (and the ¾) basis points was their best and final offer. Mr. Vellon inquired if State Street did full replication only. Mr. Brandhorst responded, with regards to the Russell 1000, full replication is the optimal solution. Mr. Vellon then inquired if the Board wanted to liquidate and get cash from the account, what would be the notice requirement. Ms. Bonefeld responded the commingled fund is a daily value fund having a notification process of 24 hours before trade day, and on a separate account basis it would be at the Board's discretion. Mr. Hilsabeck added, the more notice the better, because contributions and withdrawals can be matched to that of other clients reducing the cost of taking or putting money in the commingle fund. Mr. Vellon inquired if it was conceivable the account could be crossed against the SSGA (State Street Global Advisors) inventory. Ms. Bonfeld responded SSGA only operates as agents for clients and do not do any proprietary trading or hold an inventory.

Mr. Vellon inquired if State Street could address their inclusionary policies. Mr. Bowman asked if the Board had received the inclusion policy they submitted (which Board members had) and asked if the Board members had any further questions regarding it. Mr. Vazquez inquired if DWP had a separate account, could State Street manage an inclusion policy, as far as minority brokers, so the Board could see how it involves the management of DWP's portfolio. Mr. Bowman responded, over the last three years they have used 37 different minority brokers. Mr. Vazquez requested State Street quantify what inclusion they would have available in regards to the management of DWP's account. Mr. Bowman responded in regards to minority and women owned firms, State Street issued $48 million to 100 different firms, but as far as brokerage, he didn't have it broken down by number and did not know if he could. Mr. Brandhorst stated they should be able to provide the Board statistics on their use, over time, of minority brokers, but generally will not make available specific brokers names for competitive reasons. President Romero inquired if the Board requested a copy of the minority businesses State Street works with would they provide it. Mr. Hilsabeck responded State Street could provide the Board with the tradings done with minority brokers, but not specific broker information. Mr. Brandhurst added under a separate account setting, Board members wanted to know how much trading State Street does with minority brokers, they could provide the information in that regard.

President Romero expressed the Board was conducting a due diligence process by hiring a firm, and by the same token, if State Street had minority companies that were brokers, the Board also has the responsibility relative to due diligence on those specific companies. He added, he finds it odd State Street does not want to provide specific names while the other managers were willing to provide this information. President Romero inquired, regarding transition, how does the size of their company correlate with trading with minorities if these are not the bigger companies. Mr. Hilsabeck responded State Street's job, as an index fund manager, is to avoid trading as much as possible, in order to keep DWP's portfolio exposed to the market without generating a lot of commission, a lot of transaction charges and bid spread charges, because in the end all comes out of DWP's pocket. He explained State Street has internal liquidity and the Department Of Labor (DOL) provides an exemption allowing them to trade securities between accounts and amongst themselves, for free, without ever going to the market, and this is where the size issue really comes into play. Mr. Hilsabeck stated when going to the market is inevitable, State Street believes they have a responsibility and track record to demonstrate they go to the market, consistently, to minority and women owned brokers, and if the Board want more information on these brokers, at a macro level, they would provide that information. He explained State Street has an obligation to the broker when it relates to specific accounts and specific trading with specific brokers. President Romero clarified all the Board was requesting was names, years, quantity, execution and performance on the minority companies. He also inquired if State Street would be willing to provide a 100% indemnification for the subcontractors on any losses they may incur with respect to DWP's portfolio. Mr. Rue pointed out he did not know about the indemnification, but State Street was one of the firms who had issues with some of the insurance requirements. President Romero indicated there was no sense in asking them questions regarding indemnification until they resolved the insurance issues.

Mr. Vazquez inquired what State Street's goal and experience was in terms of tracking the index. Mr. Brandhorst responded their expectation was 5 to 10 basis points tracking error on an annualized basis, and they have been within this range of tracking for most of the experience of their fund. President Romero inquired if their performance had been 9.01% since inception. Mr. Brandhorst responded the 9.01% represented a specific commingled vehicle of the Russell 1000 strategy, but their performance has been 9.15% over the past 10 years.

Mr. Wiggs stated what the Board was trying to find out is, when doing the trades on DWP's particular account, how many of them would be handled with minority firms and how would the board get a report of this, also, if one of those firms made an error on a trade would State Street stand behind it. Ms. Bonfeld responded a specific credit process was undertaken for review of all brokers and for equity trading, there is a very rigorous process done annually. She added the process by which the insurance issue comes up, is underneath this, but the credit policy involves all broker dealers State Street considers, from their fiduciary perspective, to be acceptable, which is a finite list. She stated, underneath this, if there were any error State Street commits in terms of a trade, it would be State Street's responsibility, adding she was not familiar with the other levels of indemnification.

Mr. Rue clarified this would be a separate account in that instance, and it is when getting into the big commingled funds that it becomes a little different, in terms of tracking DWP's particular trading. Mr. Wiggs inquired if it would be easier if it were a separate account. Mr. Brandhorst responded there would be no issue on providing the Board with 100% information requested on who they are trading with on a separate account format.

Mr. Wiggs inquired if State Street had any goals on how many minority firms they try to use in terms of trades. Ms. Bonfeld responded the goal perspective is from a fiduciary standpoint, best price and best execution, and making sure everyone has access in giving the best price.

Mr. Rue commented the reason for separate accounts is it gives the ability to develop customized policies. Mr. Hilsabeck indicated a separate account can be a differentiator for the firm, and they were occasionally asked to screen out certain types of securities. He added there is not as much flexibility in commingled fund wherein the firm, for example, votes proxies on behalf of all clients. Mr. Vazquez inquired if the tracking was the same on separate and commingled settings. Ms. Bonfeld responded it depends on the guidelines and as you get more restrictive on guidelines, there are some offsets versus performance.

Mr. Mirisola inquired if a policy could be established, on a separate account, allowing brokers to trade at something other than the best price and the best rate. Mr. Rue responded it could be at a level, but the brokers would still have to execute the best trades. President Romero reiterated he wanted to know who the firm has done business with, how long they have been in business, and he did not want there to be any conflicts of interest, in order to keep the process clean. Ms. Bonfeld indicated the firm could provide the Board with the guidelines by which they perform their reviews, adding these were done by a completely separate area from trading. President Romero expressed the Board is a public entity and everything they do is scrutinized and analyzed. Mr. Bowman indicated he could provide the Board with a list of names they have done business with in the last three years, how long they have done business with them and how long they have been in business. After more discussion, the representatives from SSGA were excused and left.

President Romero called for a brief recess at 1:13 p.m.

[Recess]

The meeting reconvened at 1:28 p.m.

Ms. Elizabeth Smith and Ms. Judith DeVivo, of Alliance Capital, approached the table.

d. Alliance Capital

President Romero recognized Ms. Smith and Ms. DeVivo.

Ms. Smith introduced herself and indicated Ms. DeVivo would be the portfolio manager on DWP's account and has been with the firm for over 30 years, managing passive index portfolios for 19 years. She added, their longest standing client was the LA Police and Fire Plan. Ms. Smith reviewed her history with Alliance, stating she has been with the firm for 17 years and is in charge of client service and marketing, exclusively in the public funds arena. She then gave an overview of the firm, pointing out they were leaders in the investment management business, with $369 billion in management, possess experienced professional staff, multiple products and a commitment to research.

Ms. DeVivo outlined reasons why the Board should hire Alliance to run DWP's index fund, as opposed to the other big vendors. She mentioned their stability and willingness to act as transition agents. She also stated the firm runs $20 billion in index funds, and thinks their size is an advantage, explaining Alliance manages in excess of $400 billion in active money, giving them leverage in the trading community, which allows them to get the best execution possible for the client. Ms. DeVivo reported the firm exhausts full crossing opportunities, which lowers transaction costs and the proof of this is in their returns where they have outperformed their major competitors by 5 to 7 basis points, adding value. She stated in regards to the firm's passive assets, of the $18 billion in equity index, $1.2 billion is in various mandates of Russell indices, including Russell value, Russell 2000 growth, etc.

Ms. DeVivo reviewed Alliance's approach to indexing, stating they were able to provide any type of index product available from the standard S & P 500 to any customized benchmark. She stated there were two ways to construct and maintain index funds, which is by replication and by using a stratified sampling technique by holding a subset of the index, adding that those two techniques allows a manager to track the investment return of the index. Ms. DeVivo emphasized Alliance thoroughly analyzes each trading program before entering the market place looking at pricing, risk profile, and spreads, in an effort to determine he most cost efficient way to trade securities for the client.

Ms. Smith addressed the Board's request for their policy of inclusion, stating they attempt to hire all races, colors and creed and are involved in giving back to the community. She then inquired if the Board had any questions regarding Alliance's index strategies or any other issues.

Mr. Vazquez inquired if the firm had $21 billion in index funds, how many are separate accounts or commingled. Ms. Smith responded they have 45 U.S. equity portfolios and a commingled vehicle only for their S & P 500, 400 midcap, and 600 products.

Ms. Bertrand inquired if within their inclusion policy were there minority women firms they dealt with as brokers. Ms. Smith responded in the affirmative, adding the RFP submitted by Alliance identifies the minority brokers they utilize. Mr. Vazquez inquired if the firm would be able to track this activity. Ms. Smith responded, as part of the management package provided to the client, they generate commissioned reports identifying the client's directed, who the broker is, and what dollar amount has been directed. She stated if the Board has a policy, submitted in writing, where "X" percent is to be done with certain brokers, it would probably result in a greater percentage, adding if it was based on best execution, the minority brokers would have to be considered along with all the tier 1 brokers which have the ability to commit capital and often times can offer a better opportunity. President Romero inquired why the other brokers would offer better as far as execution. Ms. Smith responded it was due to their ability to commit capital, which is required with a very large trade, and, because Alliance is the size it is, they are required to do business with brokers who can commit the capital on the trade.

Mr. Vellon commented, in Alliance's proposal, they only responded it would be a separate account, and the reason being, they don't have a commingle Russell 1000. Ms. DeVivo responded in the affirmative. Mr. Vellon inquired if Alliance would acquire certain custody charges. Ms. DeVivo responded this would only apply within the custody agreement structured between the Plan and its bank custodian.

Ms. DeVivo explained Alliance would have 1000 securities under a separate account, although some securities drop off from the index when they are merged with another company within the index. Mr. Vellon inquired, in terms of crossing trade, was it conceivable Alliance could cross trades, (whether they buy or sell), against their own inventory. Ms. DeVivo responded Alliance cross trades with their competitors or other in-house managed funds, at approximately 30% annually. Mr. Vellon commented the fee quoted initially by Alliance was way out of line with their competitors, and even the second fee quoted was still significantly out of line. He inquired if this was due to it being a separate account, that makes the fee so expensive. Ms. DeVivo responded it was a separate account management and Alliance does not have commingled funds. Mr. Vellon inquired whether the fee quoted was negotiable. Ms. DeVivo responded the initial quote was the standard fee schedule and she would have to go to her management on whether the quoted fee was bottom line.

Mr. Vellon requested Ms. Smith elaborate on their reference in the RFP Alliance submitted to an existing litigation involving ENRON. Ms. Smith explained the nature of the litigation stating Florida State did file suit against Alliance for their holdings in ENRON. She stated the active portfolio for Florida State actually returned 1500% versus 800% to the benchmark, subsequently they had a good record with them. Mr. Vellon inquired who was the Board of Director at the time. Ms. Smith responded Mr. Fred Savage, who was on the Board of ENRON and Alliance, and there was question as to whether there was communication between Mr. Savage and the person at ENRON, which there was not. She added Alliance was just cleared of any racketeering charges and is not being held liable, but it will take some time for it to be settled. After more discussion, President Romero thanked Ms. Smith and Ms. DeVivo for their presentation.

Ms. Smith and Ms. DeVivo left.

Mr. Robert Joseph, Mr. Terence Toth (both of Northern Trust) and Mr. Alexander Matturri (Deutsche Asset Management) approached the table.

e. Northern Trust

President Romero acknowledged Northern Trust Representatives.

Mr. Joseph introduced himself and his associates, stating he handled client services and sales in the public fund arena, Alex Matturi as director of quantitative strategies, and Mr. Toth as managing director of the index fund group as well as the transition services and securities lending operations. He described Northern Trust as a publicly traded company wherein former and current employees hold a third of their outstanding shares. He stated Northern manages $300 billion in assets across a wide variety of disciplines in the index fund arena, and those assets, following a recent acquisition of the Deutsche bank index business, brings their index capability to $140 billion, $15 billion of which is in Russell index mandates. Mr. Joseph reported their investment centers were based in Chicago and New York for domestic assets and the 10 located in California are private client offices.

Mr. Toth outlined what differentiated their firm in the marketplace was their approach to indexing, their global organization, size and breadth, and client servicing.

Mr. Matturri explained intelligent indexing, the evolution of indexing, how it is constantly changing and how one needs to react and respond to the capital market. He stated Northern differentiates themselves through process and products by three major factors: the team approach, the investment process, and performance. He defined intelligent indexing as being thoughtful and not taking the risk of trading in the marketplace because trading too early can go against performance, and rather look to add value in a riskless way. Mr. Matturri reported Northern has $3.5 billion in their Russell 1000 fund and manage $7.5 billion in Russell strategy, which is advantageous in offsetting cash flows coming and going at all times, to avoid paying transactions costs.

Mr. Vazquez inquired if the acquisition of Deutsche Bank Asset Management change anything or if it does anything to impact their business. Mr. Matturri responded he was currently with Deutsche Bank, but in two more days he becomes a Northern Trust employee. Mr. Toth stated this would change things as far as their goal of adding more scale to their U.S. passive business and broadening their international product delay. He added, over time, Northern would bring some of their like funds together with Deutshce's and stated they have been spending a lot of time looking at how Northern's process and Deutsche bank's differ. Mr. Matturri added 30 people managed all the Deutsche index funds and 29 people are moving over to Northern Trust and Northern had approximately 39 people, adding Northern had been shorthanded and might need to shift responsibilities around.

Mr. Rue inquired if the shifting of responsibilities was something that was in progress. Mr. Matturri responded it was in progress, everything has already been laid out, custody of the Deutsche fund will move over to Northern Trust and clients have had a choice of which fund they want to go into. He stated when the firm actually combines the funds in two to three months, they will take the best features from both companies.

Mr. Vellon noted Northern mentioned the whole investment strategy in their proposal and inquired how many securities are typically used in their Russell 1000 index. Mr. Matturri responded the portfolios themselves are as tightly constrained as a fully replicated portfolio. Mr. Vellon inquired how many securities Northern has, compared to the index. Mr. Matturri responded on June 30, Northern typically holds 900 new stocks in the Russell 1000 portfolio, adding the differences will come in all the larger stocks, which are very tightly constrained, and they may underweight some of the smaller stocks that are more expensive to trade, because they cost more and the impact of the tracking error is very small. Mr. Vellon noted Northern holds 950 out of 1000 securities. Mr. Matturri clarified the difference comes in when they have cash flows coming into the fund and they may not buy 950 stocks when money comes into the fund, but rather 800 stocks because liquidity varies over time.

Mr. Vellon noted Northern quoted 1 basis point for the separate account, and inquired if this fee was negotiable. Mr. Joseph responded the fee was negotiable and a fee schedule was also inputted if the DWP wished to commingle, which drops the fee by almost 20% off the 1 basis point. Mr. Vellon inquired if DWP has a commingle account, what would be the liquidation notice requirement. Mr. Matturri responded Northern has daily evaluations on all of their funds and their time cut off for withdrawals is 2:00 p.m. Eastern time and, typically, all the money can be made available within three days. Mr. Vellon then inquired regarding the crossing of trades, was it conceivable Northern could use their own inventory (to buy or sale from their own account). Mr. Joseph responded they would not, because they do not own positions. He proceeded to elaborate on transition services they can provide to the Plan.

Mr. Joseph noted he had sent a letter to Mr. Vellon, specifying how Northern embraces the notion of inclusion, at the Board's request. He stated he referenced some materials left for the Board consisting of their diversity programs and other initiatives going on in the organizations.

Mr. Vellon requested Mr. Joseph summarize Northern's inclusion policy. Mr. Joseph explained the materials provided describe a very explicit mission to create a workforce representative of the community. He stated throughout the organization, there are statistics about the composition of the workforce, the change in composition of the workforce and the opportunity available to people of all walks of life embraced at the highest levels of Northern Trust. He added every two years every employee is required to go through diversity training, organizations have been created within the communities to facilitate opportunities for emerging minority and women owned organizations. Mr. Joseph indicated at an investment level, specific to the world of index fund management, Northern has deep relationships with many of the emerging minority brokerage firms and works closely with them to structure interfaces in order to trade through them and as a bank they also extend credit to these firms. He then described an emerging minority manager program Northern developed adding they employ over 40 emerging minority firms, which is a source of capital in order for these firms to acquire and manage assets, build track records and grow as an organization.

Mr. Vazquez inquired if the Board engaged Northern to manage a separate portfolio, would they be able to assure some of the management activities would involve minority firms and would Northern report back to the Board to quantify this. Mr. Joseph responded in the affirmative.

President Romero inquired if Northern would be able to provide a list of the minority managers they utilize and how long they have been in business. Mr. Joseph, again, responded in the affirmative. President Romero then asked if they would be able to provide an indemnification agreement for their minority managers for any losses incurred as a result of DWP doing business with them. Mr. Joseph responded he would have to take that question back to the firm, adding they go about a rigorous process of due diligence before utilizing any firm, but that does not eliminate the possibility of a trade failing. He stated it would be challenging for Northern to say they would guarantee zero failure on the part of any broker. President Romero clarified his question was in regards to passive management. Mr. Joseph responded the only arrangements Northern has was on the brokerage side, and he reiterated the firm goes through the due diligence to ensure the brokers can execute, but they cannot guarantee their execution is flawless.

President Romero inquired what programs did Northern have to include other minority groups such as disabled, Hispanic, etc. Mr. Joseph responded Northern did not have any more finite groups broken out, but in cutting across all types of minorities, the Board would find their multi-manager programs have been the greatest of value as far as these groups getting capital or seed money to manage, in order to build a track record and go out and market this to different organizations.

Mr. Vellon noted in Northern's response to the RFP they stated they were in compliance with all the requirements DWP had. He then inquired if in terms of insurance requirements, if the Board were to move into a commingle fund would Northern still be able to comply. Mr.

Joseph responded they would comply with the insurance requirements whether commingle or not, because it is an investment relationship Northern takes on. President Romero thanked Mr. Toth, Mr. Joseph and Mr. Matturri for their presentation and they were excused.

Representatives from Northern Trust left.

[President Romero called a 5-minute break]

Mr. Wiggs suggested casting a secret straw poll vote of the members' 1st and 2nd choices, for the President to read and tally, just to get an idea of where the group is heading before the discussion starts. Mr. Rue suggested this would be a way to do it. Each member cast his or her vote. Mr. Vellon stated, for purposes of the Brown Act, all votes are to be disclosed for the public to know. President Romero read the members' vote into the record as follows:

Votes for 1st Choice	Votes for 2nd Choice
Northern	State Street
State Street	Merrill Lynch
Merrill Lynch	State Street
Northern	State Street
Northern	State Street
Merrill Lynch	State Street

Mr. Vellon summarized the results on the 1st choice as 3 votes for Northern, 2 for Merrill Lynch and 1 vote for State Street. He reported the votes for 2nd choice were 5 for State Street and 1 for Merrill Lynch. Mr. Rue noted if one would combine all the votes, Merrill Lynch received 3, Northern Trust received 3, and State Street received 6.

Mr. Rue gave a quick summary of the strengths of the various firms. He noted an additional factor could be their inclusion policy relative to minority outreach. Mr. Mirisola noted Northern appears to be the one who "walks the walk" with their rather strong inclusion program. Mr. Vazquez suggested Merrill Lynch had the strongest program. President Romero noted all firms presented an inclusion program and Board members needed to focus first on performance.

Mr. Vazquez inquired if portfolio transition programs were to be considered as a criterion because State Street seemed stronger in this area. Mr. Rue responded there was a question in the RFP in case portfolio transition capabilities were needed in connection with the various portfolios to be funded by the Board. President Romero added, these programs can be considered separate from the passive RFP. He noted the current bank custodian offers those services as well. It was the consensus to focus on the passive portfolio criteria and any portfolio transition needs could be considered at a later time, as the need arises. Mr. Rue recommended a mini RFP process could be considered amongst those under contract with the Board who may also have transition capabilities. Mr. Mirisola noted one has to be alert as to those who may present a portfolio transition program while having a "Chinese Wall" to avoid conflicts of interest with other areas within the bank or company. He warned such walls are not always perfect. Mr. Rue noted this concern might apply to Merrill Lynch, but not State Street or Northern Trust. Mr. Mirisola indicated he was impressed with Northern's portfolio transition capabilities. Ms. Calvache indicated she liked Northern Trust, as they presented, more clearly, the points she wanted to hear, including inclusion issues. She added their fee was very low. Mr. Mirisola indicated Northern had the closest tracking error.

Mr. Wiggs reported most firms quoted a fee in the area of 1 basis point, except for Alliance. He added all firms might be willing to bring their fee within range. He also stated all firms were capable of providing the service and fulfill the Board's due diligence process, but ultimately, it may come down to intangibles. He expressed concern about Northern Trust's merger, adding this gives him some discomfort, due to the potential for staffing changes 3 years down the line. He pointed out Merrill Lynch's group has been together 17 years and showed strong expertise with the Russell index. Mr. Vazquez also expressed concerns about the various sources of Northern staff coming from different banks.

President Romero pointed out Merrill Lynch did not have experience with the Russell 1000 index while the others did. He noted their fee was a little bit higher. He expressed he was inclined towards Northern, due to low tracking error, low cost, they have become bigger after acquiring Deutsche bank business and their crossing capabilities were strong. He then indicated there seems to be a difference of opinion as to Northern Trust versus Merrill Lynch while all 6 Board members favored State Street either as a first choice (1 vote) or second choice (5 votes). He suggested the selection of State Street appears to be a logical compromise to resolve the matter.

Mr. Wiggs indicated Merrill Lynch was way ahead of the rest on diversity issues and also showed strong trading capabilities. He indicated State Street did present the same trading strengths as Merrill Lynch.

Mr. Mirisola pointed out Northern Trust was the only firm who committed to full compliance with all criteria required by the Plan, including insurance and indemnification issues. Mr. Rue clarified Merrill did meet all insurance requirements, but not the Russell 1000 experience required in the RFP, but they have experience on other Russell products. Mr. Mirisola expressed the lack of Russell 1000 track record is a concern for him since this was a requirement of the RFP. Mr. Wiggs pointed out getting the team from Merrill Lynch was important, as they have been together for many years. There was extensive discussion as to the various member preferences. President Romero again mentioned State Street received a unanimous vote for first or second in the straw poll and he suggested this could be the Board's choice to solve the impasse. Considerable discussion continued relative to Northern versus Merrill Lynch.

Mr. Vazquez inquired about the RFP criteria for tracking error. Mr. Rue responded this was set at not more than 10 basis points and the three firms discussed met these criteria. Mr. Wiggs inquired if there was a problem with splitting the assignment into two segments. Mr. Rue responded this would reduce bargaining power in fee negotiations and he recommended the assignment be limited to one manager only.

Mr. Vellon expressed the Board has the option of selecting two firms and this will not affect the manager's delivery of service or even the fee negotiations. He added this account was important to all firms and the posting of the agenda allows for the selection of one or more firms. Mr. Mirisola expressed concerns about changing the amount of the allocation just because members cannot agree as to any one company. Mr. Vazquez suggested eliminating State Street and then voting again. Mr. Rue noted State Street already received 6 votes. Significant discussion continued.

President Romero inquired what were the insurance issues raised by State Street. Mr. Rue responded they had many issues and it would be anticipated the Board would have the same difficulties in negotiations as they had with Standish-Mellon last year. He added they both have the same insurance carrier.

Mr. Wiggs indicated it appears the decision remains between Merrill Lynch and Northern Trust. He inquired about Northern's merger and 18 individuals leaving the company is a concern. Mr. Mirisola noted Merrill lost twice as many clients. More discussion continued.

Mr. Wilkinson advised the Board's fiduciary responsibility does not necessarily mean members can narrowly focus only on one item. Mr. Wiggs suggested a vote. Mr. Mirisola then moved approval of Northern. Seconded by Ms. Calvache and the motion died on a tie vote as follows:

Ayes: Romero, Mirisola, and Calvache
Nays: Bertrand, Wiggs and Vazquez

Mr. Wiggs moved approval of Merrill Lynch. Seconded by Ms. Bertrand and the motion died on a tie vote as follows:

Ayes: Bertrand, Wiggs, and Vazquez
Nays: Romero, Mirisola, and Calvache

Mr. Mirisola moved approval of State Street, subject to their resolution of the insurance issues. Seconded by Ms. Calvache and the motion died on a tie vote as follows:

Ayes: Romero, Mirisola, and Calvache
Nays: Bertrand, Wiggs and Vazquez

Mr. Wiggs indicated Commissioner Cho may be able to break the tie. He noted, however, the Plan requires one elected member must vote in favor of any contract. More discussion ensued and Mr. Vazquez noted Northern Trust was not one of the top three recommendations of PCA. Mr. Mirisola pointed out at the opening of the meeting Mr. Rue reported Merrill lowered their fee and they were tied for third with Northern Trust. He then expressed concern PCA was told to bring all candidates for Board consideration, not three. He pointed out PCA took it upon themselves to narrow the list to three and someone must have given direction to them, resulting in their narrowing the list down to three. He expressed concerns as to how could this have happened. Upon request for clarification, Mr. Rue indicated he narrowed the list down to three on his own. Discussion continued.

Mr. Vazquez elaborated on the strengths of Merrill Lynch and inquired if Mr. Rue could compile a report explaining why Northern Trust lost so many people in a short period. Mr. Rue responded he would obtain more information from Northern Trust.

President Romero articulated the management members and the retirees favor Merrill Lynch, while the active members favor Northern Trust. He suggested, in the interest of resolving this matter, it would appear appropriate for everyone to show some flexibility and support State Street, subject to their resolution of the insurance issues. He added this would be a reasonable compromise, considering the consultant has advised State Street would be a capable firm and all six members present supported them (as first or second choice) in the straw poll. More discussion continued as to each member preference and the inclusion strengths of the various firms.

Mr. Wiggs stated he would want a lot more specifics on the inclusion policy of State Street. He also expressed concerns the insurance issues previously considered by the Board in connection with Mellon-Standish, took a long time to resolve.

Mr. Wilkinson advised the type of passive index strategy considered by the Board represents a different product from what the Board faced when insurance issues were discussed with Mellon-Standish. He added, in this case there may be more flexibility relative to the same issues, considering the nature of the product under discussion.

Mr. Wiggs indicated the inclusion policy issue is a legitimate item to consider, especially given the equal quality of all the firms under review. He noted this would also be in line with the City and DWP policy and with the policy adopted by this Board. He expressed concern about the potential for personnel turnover at Northern Trust relative to their merger. He requested to pursue more information as to whether State Street would be willing to reconsider the insurance issues and for them to provide much more information on what they do or can do in terms of the diversity perspective. It was the consensus for Mr. Vellon to obtain this information from State Street. Mr. Rue was asked to pursue information on the personnel turnover at Northern Trust and on the details of minority managers brokers used by the various firms as requested by President Romero.

Mr. Wiggs inquired if splitting the funds between two firms was an option and what impact would this have on the Board's leverage. Mr. Vellon responded this would be perfectly fine. He added this account is important and the leverage will not be lost. Mr. Rue added the worst case scenario is the firms, at a minimum, would maintain their quoted fee of approximately 1 basis points if the funds received is $700 instead of $1.4 billion. It was the consensus for Mr. Vellon to contact the 3 firms to determine the impact on fees if the funds are split between 2 firms.

Mr. Wiggs inquired if splitting the assignment in two allocations of $750 million could be an option and how would this affect fees. Mr. Rue responded the RFP respondents have come down significantly in fees and his expectation would be at the very least, they should maintain those fees.

Mr. Vasquez inquired if allocating only $750 million under a separate account would be adequate to support the level of activity necessary for maintaining approximately 1,000 stocks. Mr. Rue responded Mr. Vasquez's scenario would represent an incentive to consider a commingled fund option, especially as the manager fund assignment gets smaller.

Mr. Wiggs inquired if Board members were interested in considering Northern and Merrill at $750 million each. Discussion ensued and Mr. Mirisola expressed the need for Merrill to have a record on the specific product.

Mr. Vellon indicated the Board could make any decision today and as a result of the significance of DWP account, all RFP respondents are likely to accommodate the Board in every way. Mr. Wiggs noted the main issue is if the smaller allocation would still allow the managers to do what the Board is looking for. Attorney Wilkinson advised one consideration is if the size of the allocation will allow the investment manager to take advantage of certain economies of scale, which might be available under a larger allocation.

Mr. Vellon suggested if Board members are more inclined to assigning smaller amounts to two managers; they should opt for a commingled fund for two reasons:

1. It would be a generally cheaper product.

2. It would avoid the recordkeeping (and possible custody) costs associated with 2,000 stocks bought by two separate account managers.

Mr. Rue agreed with Mr. Vellon's suggestion and more discussion ensued. Mr. Wiggs noted he would be willing, as a compromise, to move approval of Northern and Merrill at $750 million, considering the consultant has indicated this would not make a difference in terms of results. He added he would not be against a commingled assignment and both companies have expressed willingness to comply with all Board requirements, including insurance.

Mr. Mirisola reiterated his concerns about Merrill's lack of track record in the product. After a significant exchange, President Romero suggested waiting for Mr. Vellon's research on State Street and Northern, as dissected earlier at the meeting, and the Board can take all the information into consideration at another meeting, including Mr. Wigg's suggestion of a 50/50 split between two companies.

Mr. Wiggs supported President Romero's suggestion. Mr. Vasquez expressed his concern about a commingled allocation, considering such assignment would not facilitate the Board's tracking of the investment manager's inclusion practices. Mr. Wiggs indicated he understood the tracking would be possible under either commingled or separate account.

More discussion ensued and Mr. Vellon clarified his understanding of his assignment is:

- Research the insurance issues and the inclusion issues with State Street.
- Research with Northern and Merrill as to whether their fee would remain the same under smaller allocations of $750 a piece, and determine if such fee may still be subject to negotiation.
- Mr. Rue will review the issue of turnover at Northern.

President Romero added, as part of the due diligence, the Board would review the ultimately selected managers' policies in relation to their use of minority firms. It was the consensus Mr. Rue will report on this item down the line. After discussion, Mr. Rue was directed to proceed with said report on the three firms under consideration. Mr. Wiggs requested Mr. Rue bring to the Board's attention any issue they may identify which could be of concern in the decision process.

3. Consideration and possible adoption of funding schedule for the Plan's newly adopted asset allocation structure.

Mr. Vellon reported PCA and Plan staff discussed the funding sources of the new investment managers to be selected. He added the spreadsheet and proposed resolution in the agenda packet outline the process. Mr. Rue added PCA agreed with the funding schedule as proposed. He added this would be subject to necessary guidelines that need to explain the process of funding the assets. He further noted it is important to determine who would be responsible for monitoring the moving over $1 billion and general guidelines for this process should be delineated. President Romero suggested such guidelines could be adopted upon the selection of the investment manager.

Mr. Vellon reminded Board members it is important for the Board to start providing instructions to the custodian bank and to the existing managers (and consultant) for them to be aware of the anticipated movement of funds. Mr. Wiggs noted the Board's adoption of the funding schedule recognizes there could be changes in the process as indicated in Mr. Rue's letter.

Mr. Rue suggested guidelines be adopted explaining the process, but he emphasized PCA agrees with the schedule proposed. Upon more discussion, Mr. Wiggs moved approval for the funding schedule and resolution. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

The meeting was adjourned at 4:15 pm.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

VIKKI BURKS
Recording Secretary