

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

**MINUTES – FEBRUARY 12, 2003**

**Present:**

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

**Absent:**

Anne E. Cho	Commissioner
Lilly Calvache	Board Member

**Others Present:**

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Silivia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney
Neil Rue	Pension Consulting Alliance

President Romero called the meeting to order at 10:09 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board present. He reported Ms. Calvache called and stated she had a last minute conflict and would not be able to attend the Board meeting and Commissioner Cho is supposed to attend the meeting, but may be late.

**PUBLIC COMMENTS**

President Romero inquired if there were any public comments and there were none. He then congratulated Mr. Vellon on his two-year anniversary as Retirement Plan Manger and thanked him for his commitment to the plan and good two years of service.

**1. Consideration vote of No Confidence in relation to Pension Consulting Alliance (PCA) based on the conduct as documented in the record.**

President Romero opened item 1 for discussion. Mr. Mirisola expressed he was unable to provide the entire written record, because it was still in draft (from the last meeting). He stated Mr. Vazquez has asked for the information in the record, but he thinks the Board can recall most of what was said in last Friday's meeting. He inquired if Board members wanted him to reiterate the issues raised at Friday's meeting.

Mr. Wiggs expressed he was not certain of, nor had he ever seen this type of process in dealing with a consultant, and does not understand what a "No Confidence" vote would do. He recommended if a Board member had issues with a consultant, the Board sit down and have a candid discussion with them, and if the sought after responses are not received, then the process should be to make a motion to terminate their contract and hire another firm. He stated he knows the

Board is unhappy with PCA, however, in his opinion they are doing a good job. He noted he has not dealt with PCA nearly as much as the rest of the Board.

Mr. Mirisola indicated Board members have been unable to get a return call from PCA for several months and the Board had made it clear, in several prior meetings, the exact reason for the vote of "No Confidence". He added, as far as trying to speak with PCA, he had given up, which is why it is in today's agenda. Mr. Wiggs suggested the Board may consider firing PCA and replacing them, because voting "No Confidence" does nothing in terms of solving the problem. Mr. Mirisola indicated he no longer has faith in PCA and, therefore, he gives no credit to anything PCA produces. He stated PCA has done things contrary to Board direction, provided data they have not been requested to provide and caused conflict with the Board members by saying one thing to them and another to Mr. Wiggs. Mr. Mirisola expressed, based on those things and others in the record, he has lost all confidence in PCA's ability to provide what they were hired to do. He expressed PCA was expected to provide, amongst other things, unbiased reports relative to RFP processes, based on the criteria the Board adopted, without any subjective means of grading or scaling. He indicated PCA's bringing firms before the Board, who did not meet the minimum qualifications (and they are apparently misleading the Board into believing these firms did) was not appropriate.

President Romero expressed his own concerns, stating PCA had circumvented the authority of the President, Board members, and also that of the representative of the retirees. He stated, as example, Mr. Rue wanted to discuss minority and women owned business enterprises (MBE/WBE) issues, in spite of the fact this was not a Board agenda item. He reminded Board members Mr. Rue continued to discuss it and he had to be stopped due to open meeting issues and lack of Board direction to do so. President Romero stated he contacted PCA with respect to who was giving them this information and he received conflicting information from Mr. Rue and Mr. Emkin and, as a result, he does not know whom to believe. He added he does not get returned phone calls from Mr. Emkin, who claims he does not receive the messages, yet he had evidence Mr. Rue had given Mr. Emkin the messages. President Romero felt someone at PCA was not being truthful. He stated his biggest issue was PCA meeting with individuals, outside of the Board, which clearly violates their contract, as stated on page 2, item 7 in the contract, which he read aloud as follows: "Contractor shall engage in ongoing consultation with the Board and it's Plan Manager and keep the trustees of the Board abreast . . ." President Romero indicated he verified the minutes, and the Board did not give Mr. Rue this direction.

Mr. Wiggs pointed out the clause in the contract does not state PCA cannot meet with outsiders. President Romero clarified PCA could not meet with outsiders to discuss Board policies without the Board members' awareness.

Mr. Mirisola inquired if someone on the Board asked PCA to talk to Mr. Lombard, because the confidentiality agreement on Page 3, item D states "all information furnished by the Board to the contractor is regarded confidential by the contractor", and, unless written authority to the contrary has been secured from the Board, it should not be discussed. Mr. Wiggs explained Mr. Lombard came to the Retirement Board with concerns regarding an inclusion policy being implemented into the process, which was discussed and voted upon by the Board. He added it seemed perfectly logical that PCA would be discussing this with Mr. Lombard, in order to

hear his concerns and there was no breach of confidentiality in this. Mr. Wiggs stated the Board does not have to accept PCA's recommendations, but the fact they get the information and data from the Commissioner, who initially brought it to the Board, bears no reflection on PCA and if the Board does not want them to do this, then tell them so. President Romero emphasized the contract states PCA is not allowed to do this.

Discussion continued among the Board members and President Romero indicated, based on such discussion, the next agenda item should include a motion to terminate PCA's contract. Mr. Mirisola clarified he had suggested a vote of "No Confidence", but if Mr. Wiggs thinks the Board should terminate them, then he would be in favor of such approach.

Mr. Wiggs inquired what would a vote of "No Confidence" mean. Mr. Mirisola responded it implies anything PCA provides to the Board lacks credibility and reliability and, therefore, terminating PCA would be his first choice. President Romero stated, if terminating PCA was going to be on the next agenda item, the details should be discussed at that time, but presently there was a motion of No Confidence and this needed to be voted on.

Mr. Vazquez requested if the Board was going to take the vote of No Confidence, or if at any time put a motion out to terminate, he would like to see specifics in writing (from the records of the Board meetings) with regard to what the firm has done to breach their contract and why. President Romero noted this would be provided in the next meeting. Mr. Vazquez expressed it was inappropriate to vote on something, based on "conduct as documented in the records" when the document is not available.

Mr. Mirisola commented PCA's conduct was thoroughly discussed at the last meeting, but the minutes had not been completed yet. Mr. Vazquez indicated the things discussed at the meeting were not evidence. President Romero inquired how was it possible to give evidence of PCA not returning phone calls. Mr. Mirisola inquired of Mr. Vazquez if there was any reason he did not believe what Board members were saying. Mr. Vazquez responded he thinks PCA has done a good job. President Romero agreed PCA has done a good job, but the process in which PCA was doing their job was not in the best interest of the Board, which is his main concern. He added when one doesn't trust someone, because they lie, one cannot work with them, regardless of how good of a job they have done, and this was his position. President Romero then inquired there was a motion on the table.

Mr. Mirisola moved a vote of "No Confidence" in relation to PCA be cast. There was no second to the motion. Mr. Mirisola requested the termination of PCA contract be put on the next meeting's agenda. Mr. Wiggs encouraged an additional attempt between the Board and PCA to resolve the matter. President Romero noted the consultants, (upon hearing these discussions) should have made an attempt to call the Board to straighten things out. He added his phone lines are always open and asked Mr. Rue to take note of this.

## **2. Possible selection of Investment Management Firm or Firms (From those responding to the Plan's Request for Proposal – Russell 1000 Index).**

Mr. Vellon indicated the Board had requested he report on various points on this item and his report was on page 4 of the agenda packet. He added Mr. Rue produced an RFI (Request For Information) submitted to the three finalists, to which they have responded and Mr. Rue is prepared to summarize such responses.

President Romero indicated the Board was at a stalemate at the last meeting (with regards to the selection of an investment management firm) and there was a suggestion of a compromise for State Street, based on the number of votes cast for State Street. He stated additional information on State Street was requested and, according to Mr. Vellon's report, they are not willing to comply with the insurance requirements. He further indicated this leads the Board to the decision of either Merrill Lynch or Northern Trust as the other 2 finalists.

President Romero stated he believes Merrill Lynch is an excellent company, but they did not meet the minimum criteria of the RFP, requiring an investment philosophy/approach as far as the 5 year live AIMR compliant performance history for the period ending September 2002, on the passive Russell 1000 mandate, which they do not possess. Mr. Wiggs expressed the criteria should be viewed as the employees within the firm having the 5 years experience and not the firm itself, because the Board could hire a firm with a five-year history and lost all the individuals with this experience. Mr. Mirisola responded the Board needed to look at whether or not the firm has a track record in the product to properly evaluate their performance. Mr. Wiggs argued Merrill Lynch does have the experience to comply with the RFP requirements and he submits the Board has two good firms, (Merrill Lynch and Northern) both of which meet the requirements. He then moved the Board divide the allocation (50/50) between the two firms, because they both have good records, meet the criteria, and expressed an interest to be strong on the outreach of the diversity program. The motion was seconded by Mr. Vazquez. President Romero expressed he would like to continue discussing the matter.

Mr. Mirisola argued the cost of dividing the allocation would be higher, due to the cost analysis by the consultant. He commented it is the Board's responsibility to the members, and to the Department, to keep the costs down. President Romero reiterated the following: the firm must have 5 years live AIMR and Northern Trust has \$3.5 billion in the Russell 1000, Northern tracking error is lower (0-5 basis points), Northern fees are lower, Northern has over 30 years experience in passive strategy with 140 clients. He pointed out Merrill Lynch has \$0 in the Russell 1000, while their tracking error is at 10 basis points and their experience in passive strategies date back to March of 2000 (with 32 clients). Mr. Wiggs stated the Board would have to agree to disagree on the issues between the two firms and there was a need to compromise, in order to move forward. President Romero noted there was a motion on the table and he called for the question as follows:

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

Attorney Wilkinson clarified, since this vote was the same as buying individual stocks, he has constantly advised it requires four votes from the Board. He also advised one affirmative vote from the employee members is necessary, therefore the motion failed. Mr. Wiggs concurred with Attorney Wilkinson. President Romero suggested the Board think about it and he proceeded to the next agenda item.

**3. Consideration of Responses to the Plan's Request for Proposal (RFP) for Domestic Large Capitalization Equity Manager (Active) and selection of a manageable number for interview.**

Mr. Vellon explained item 3 includes PCA's summary of the 19 responses received (for the large growth domestic equity manager) including their highlight of the top ten candidates. He stated the Board members needed to decide how many firms they wish to interview.

Mr. Rue explained the memo included in the agenda packet ranked all the firms interviewed by the Board, indicating the top 10 were ranked by color. He reported blue denotes the investment manager meets all the Board's minimum qualifications. He suggested the Board approve the firms ranked in blue as finalists. President Romero expressed the Board needed a bigger pool to choose from and inquired which firms, besides those highlighted in blue met the qualifications. Mr. Rue responded Cadence and Aeltus. President Romero suggested adding such two firms and, if the Board was not satisfied with them, they could check the ones highlighted by PCA as expressing "yes" under caveats relative to the insurance or other requirements. He emphasized the firms who met all the requirements should get priority.

Mr. Mirisola stated he would move for the five top candidates because they meet the minimum qualifications with no caveats, with the addition of Cadence and Aeltus, which would make 7 firms. Mr. Vellon reported Resolution 03-63 called for the Board to indicate which firms they were selecting. President Romero indicated Dresdner, TCW, Turner, Fred Alger, INTECH, Cadence, and Aeltus would be the firms interviewed.

Mr. Wiggs noted Wellington was the highest ranking and inquired what requirements didn't they meet. Mr. Rue responded the firm did not meet section 10 b) and f) of the RFP with regards to the Board's insurance and indemnification requirements and wanted to negotiate. Mr. Wiggs inquired if the Board was unwilling to considering Wellington, because of insurance requirements, while they were willing to considering State Street, even though they had insurance issues. President Romero clarified Mr. Mirisola was recommending to call the firms who meet the minimum qualifications and have no caveats.

Mr. Vazquez inquired if the caveats were all insurance related. Mr. Rue responded in the affirmative. President Romero reminded Board members the insurance was not something the Board required, but the DWP Risk Manager did. Mr. Wiggs expressed his concern about both Board's willingness to negotiate insurance requirements with one firm and not with the highest ranking firm, and deciding to just eliminate them without talking to them first. President Romero suggested the Board, as a matter of process, interview the firms just suggested, and if they were not satisfied with them, move on to the firms with caveats. Mr. Vazquez stated 10 firms had been recommended as finalists, including 5 with caveats and who did not meet the minimum qualifications. He suggested, in the interest of PCA's recommendation and the Board's time constraints, going with the 5 in blue to select the 2 firms from. He added if the Board goes with the firms in blue, which were recommended by PCA, they would not have to negotiate anything with regards to meeting minimum qualifications. A discussion ensued on whether or not the Board should interview the 5 or 10 firms.

Mr. Vazquez suggested interviewing all the firms who met the minimum qualifications and those who have a "Y" (yes) under the caveat column, meaning negotiation was needed. Mr. Vellon inquired if this would be 10 or 7 firms the Board would be interviewing. Mr. Rue indicated there would be 8, and Mr. Vazquez was not suggesting the bottom 10. Mr. Vellon suggested, since Mr. Vazquez was present, he should clarify the number of firms he wants to consider. President Romero inquired if Mr. Vazquez was suggesting all the firms highlighted in blue plus the top two. Mr. Vazquez stated Mr. Mirisola is suggesting the Board to take the 5 firms in blue on top, adding Cadence and Aeltus, and he is asking to amend Mr. Mirisola's suggestion to add, from the top 10, Wellington, T. Row Price, and Goldman Sachs, which would make a total of 10 as follows:

1. Wellington Management Company LLP
2. T. Rowe Price Group
3. Dresdner RCM Global Investors LLC
4. Trust Company of the West
5. Goldman Sachs & Company
6. Turner Investment Partners
7. Fred Alger Management, Inc.
8. INTECH
9. Cadence Capital Management
10. ING Aeltus Investment Management, Inc.

President Romero indicated this would be Mr. Vazquez' motion and inquired if there was a second. Seconded by Ms. Bertrand and carried by majority after the following vote:

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

Mr. Wiggs inquired of Mr. Mirisola, what firms he would like interviewed. Mr. Mirisola responded he did not like the whole process.

Mr. Vellon inquired of Mr. Wiggs, (since he is the busiest Board member), if he would like to interview the firms all in one day or split these into two days. Mr. Wiggs responded it was unlikely he could commit a full day to interviewing firms and would prefer splitting them into two days. It was the consensus to so proceed. Mr. Vellon indicated Ms. Tesseneer would arrange the schedule.

The Board meeting was adjourned at 10:59 AM.

---

JAVIER ROMERO  
President

---

DUAMEL VELLON  
Secretary

---

SILVIA TESSENEER  
Recording Secretary

