

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

MINUTES – FEBRUARY 26, 2003

Present:

Javier Romero	President
Dan Mirisola	Vice-President
Lilly Calvache	Board Member
Ron Vazquez	Chief Financial Officer

Absent:

Anne E. Cho	Commissioner
David H. Wiggs	General Manager
Norma Bertrand	Board Member

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Ellen Shimamoto	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney
John Charley	Pension Consulting Alliance (PCA)
Sarah Bernstein	Pension Consulting Alliance (PCA)
Louis A. Mastro	Bank of New York

President Romero called the meeting to order at 10:06 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board present. He explained other members of the Board were unable to attend the meeting.

PUBLIC COMMENTS

There were no public comments.

1. Consideration of adoption of:

- a) **General investments guidelines and objectives for the DWP Retirement Plan.**
- b) **Specific investment guidelines and objectives for the Plan's Passive (Russell 1000) investment manager.**

Mr. Vellon explained this item represents the Plan's overall investment guideline, as well as specific guidelines for the Plan's passive portfolio. He indicated two representatives from PCA, Dr. Bernstein and Mr. Charley, were present. Mr. Vellon went on to explain the guidelines had been discussed between PCA and Plan staff; he recommended adoption. He added the proposed investment guidelines would be amended as more investment managers were added.

President Romero requested the representatives from PCA state their name and function in the firm. Dr. Bernstein identified herself, reporting she joined PCA in December of 2002, and was stationed in the Los Angeles office as a Principal. She added she holds a PhD in economics. Mr. Charley stated his name, reporting he was Vice President at PCA responsible for supporting Mr. Rue and Mr. Emkin in terms of research. Mr. Vellon commented Mr. Charley has been the contact person and key player with the firms responding to the RFPs for the different investment manager searches.

Dr. Bernstein stated, for the record, PCA's opinion was that the guidelines being proposed to the Board for adoption was an excellent start for policies including the first set of guidelines for a specific manager. Mr. Vazquez inquired if the only changes in the future would be in appendix 1 of the Board meeting packet. Dr. Bernstein responded there would be additional appendices for guidelines for each type of manager and there were some details of the existing general guidelines needing some elaboration. Mr. Mirisola then moved adoption of Resolution 03-60 with the obvious changes and removal of strikeouts and underlines. Seconded by Mr. Vazquez and carried unanimously after the following vote:

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

2. Consideration of Russell 1000 Index portfolio for determination of commingled or separate account format.

Mr. Vellon indicated the Board is selecting Passive managers for an allocation of \$1.4 billion and will be deciding on whether to select one or two managers. He added one of the important issues to address is deciding on a commingled fund versus a separate account format. He stated PCA expressed a preference for a commingled format for the DWP Plan.

Dr. Bernstein explained PCA's primary reason of choosing a commingled format for DWP's Plan was this kind of format was a lot cheaper and the Plan would not be getting much more out of a separate account. She added a separate account would be needed if there was specific criteria over and above what the standard commingled format would offer, and, in that case, the Board would pay the extra significant fees to have a separate account.

Mr. Mirisola moved approval of a commingled fund (Resolution 03-77). He inquired of Attorney Wilkinson if there could be an issue regarding the language in the Charter dictating how the Plan assets are held (direct ownership vs. unit of participation). Attorney Wilkinson responded the Los Angeles Fire and Police Pensions had commingled accounts, and specifically, they were done on real estate, but he could check as far as equities were concerned. Mr. Mirisola stated the information Attorney Wilkinson provided was sufficient. Ms. Calvache seconded Mr. Mirisola's motion and it carried unanimously after the following vote:

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

Mr. Vazquez expressed the commingled fund was the right thing to do, based on the recommendation of the consultant, and the only concern he had was it will not allow the fund manager to put in a specific inclusion policy with regards to their management of DWP's specific portfolio as it would in a separate account. He added the Board would work with whoever was chosen as a fund manager in assuring they are inclusive and would require a report to the Board, in some manner, showing what they are actually doing. Mr. Mirisola and President Romero agreed with Mr. Vazquez. Mr. Vellon suggested the reporting requirement could be included as part of the contract.

Mr. Vellon indicated representatives from the Bank of New York (BONY) were present and were concerned the fee they quoted for the account, was based on very little or no activity, and they anticipate (after the election of the managers), a lot more activity and would like to discuss their fee arrangement.

President Romero recognized Mr. Lou Mastro (BONY). Mr. Mastro explained BONY was concerned DWP's transaction volume would increase ten times what it is currently doing and the current fee structure with the Plan is zero custody fee. He stated BONY may get some money on securities lending, but with the increase in the amount of transactions, this would really push BONY into a losing proposition and they are not necessarily looking to burden the Board with an exorbitant fee increase, but are looking to capture an incremental number of transactions exceeding what DWP's portfolio did last year. Mr. Mastro reported an analysis shows, since last year, the Plan did about a 1000 transactions and all they are looking to do is recoup any costs above the 1000 level. He indicated BONY added, as an incentive and in appreciation of the fact the Board wants to predict their custody cost (as well as the investment management cost), the Board can consider assigning to BONY the transition of assets assignment. Mr. Mastro explained this incentive, stating if the Board were to use BONY for some transition services, going forward, BONY would forgo the custody fees. President Romero responded Mr. Mastro made a good point and suggested including Mr. Emkin at the next Board meeting to discuss transition services.

Mr. Vazquez inquired, with regards to the commingled account, would the Plan have a separate custodian from the others or just one custodian. Mr. Charley responded it would depend on who the Board selected. Mr. Vazquez inquired if it depended on which manager the Board selected and which custodian they use. Mr. Vellon explained, when going into a commingled format, the bank will have their own custody charges, because they have to have the securities under some kind of custody somewhere. He stated, within the fee quoted to the Board, there will be a built in bundled charge for the custody part, and if the Board went into a separate account format, BONY would have the custody of the 1,000 securities generated, and if two managers were selected it would be 2,000 securities. Mr. Vellon stated there would probably be an embedded implicit cost for custody within any commingled account selected.

Dr. Bernstein added between the three finalists selected, (Northern Trust, Merrill Lynch and State Street), State Street is the only one who wants their own custody, quoting a separate additional 1.5 basis points fee for it and subsequently it could be quite more expensive. President Romero suggested Mr. Vellon contact State Street and inquire if they are firm on the 1.5 basis points fee or are they willing to negotiate as the other two firms. Mr. Vellon clarified, for the record, President Romero was stating the other two finalist managers have indicated they are willing to negotiate their fee and State Street became a possible alternative only after they expressed willingness to comply with the Plan's insurance requirements.

3. Consideration of Resolution 03-76 amending Resolution 03-52 relative to "Authority to Purchase Commercial Paper from the List of Approved Issuers".

Ms. Bhatia explained there was currently a resolution on file authorizing staff investment of commercial paper up to a limit of \$1 billion. She added the proposed resolution would increase this limit. She indicated the cash balance as of March 31 2003, is projected at \$936 million and, even though DWP is transitioning and will be deploying assets, possibly decreasing the cash balance, the Retirement Plan office feels it will be more prudent to have an authorization in case the cash balance exceeds the \$1 billion. She recommended approval of Resolution 03-76. President Romero indicated he spoke with Mr. Rue the day before and PCA would be coming next week with recommendations as to what to do with the cash. Mr. Mirisola then moved approval of Resolution 03-76. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, and Vazquez

Nays: None

4. Consideration of DWP Retirement Plan current cash position.

Mr. Vellon explained the Plan is approaching the \$1 billion mark in short term investments, and, considering DWP's Fund is a \$5 billion plus account, this is a large chunk of money to have in cash and there are concerns regarding this. He reported PCA has examined the situation and is in the process of studying it and will provide the Board with recommendations as soon as possible. Dr. Bernstein confirmed PCA would be bringing options to the Board regarding the cash balance. Mr. Mirisola commented originally the thought was to take the cash and put it into international investments, but until that happens the cash balance will remain high. It was the consensus to wait for PCA recommendations.

Before adjournment, Mr. Vazquez reported the process of soliciting interest for a new retiree member for the Retirement Board will be starting soon, and an action will be needed by the Board at the next meeting to authorize it. He stated Ms. Bertrand indicated she does not want to be considered for reappointment. President Romero inquired when the term ends. Mr. Vazquez responded June 30, 2003. Mr. Vazquez inquired about trustees not currently being compensated for their work, stating the Board had previously discussed whether there could be a stipend for non-employee members. President Romero inquired if the Board had agreed the previous retiree Board member, Mr. Williams, would receive payment. Mr. Vellon responded initially it was intent to do so, but the whole thing died down when Mr. Williams left, but the Board, in principle, endorsed the idea.

Mr. Vazquez explained the Charter allows the Board to pay a stipend, to a certain extent, and inquired if Attorney Wilkinson knew what the amount was. Attorney Wilkinson responded he did not know off the top of his head, but it had been previously researched and could be included as a future item. Mr. Vellon reiterated the Board already adopted the idea, in principle, and staff would provide the Board with the information already provided by the City Attorney's office. Ms. Calvache confirmed this item had already been discussed, and the Board agreed if Mr. Williams wanted the stipend, due to his time and travel costs, it should be made available to him. Mr. Vazquez commented he just needed to find out the amount.

President Romero thanked the PCA representatives for attending the meeting on such short notice. Mr. Vellon thanked Mr. Charley for his work in fielding questions from the many managers responding to the Board's RFPs.

The Board meeting was adjourned at 10:26 a.m.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary