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

MINUTES – APRIL 30, 2003

Present:

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

Absent:

Anne E. Cho	Commissioner

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney
Sarah Bernstein	Pension Consulting Alliance (PCA)
Joseph Silver	Merrill Lynch
Steve Malinowski	Merrill Lynch

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

[Pledge of Allegiance]

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

PUBLIC COMMENTS

There were no public comments.

1. **Pension Consulting Alliance (PCA) – Investment Performance Evaluation for the period ending December 31, 2002.**

Mr. Vellon indicated the first item was a presentation of the quarterly report ended December 31, 2002. He added PCA representatives have not completed the March 31, 2003, quarterly report and this will be presented at a later date.

Dr. Sarah Bernstein, of Pension Consulting Alliance (PCA), approached the table.

President Romero recognized Ms. Bernstein.

Dr. Bernstein reported DWP's portfolio ended the 4th quarter of 2002 (Q402) with $5.4 billion in assets and 16% of this was in cash. She stated in Q402, the portfolio gained 5.4%, which underperformed the market by approximately 30 basis points due to an underweighting in domestic equity and an overweight in cash. Dr. Bernstein stated, for the year, the portfolio outperformed the index partially due to underperformance on the domestic equities, slightly better results on the fixed income portfolio, but also when equities were plummeting, the cash exposure helped.

Dr. Bernstein reported, for the last three years, DWP's portfolio has outperformed approximately 5.8% over the market basis proxy. She reviewed the capital markets, stating in the last quarter of 2002, equities rebounded. She stated over the three-year period, domestic equities have been in a declining mode, and International emerging markets slightly outperformed the S & P 500. Dr. Bernstein indicated, since the mangers were available to present their quarterly reports to the Board, she would allow them to give a review of their performance themselves.

2. **Standish Mellon Asset Management, LLC Investment Counsel fourth quarter report (December 31, 2002) and first quarter report (March 31, 2003).**

Mr. Daniel J. Richter of Standish Mellon approached the table.

President Romero recognized Mr. Richter.

Mr. Richter started by expounding on their previous announcement of combining Standish Mellon with two other Mellon subsidiaries, closing either in late May or the beginning of June 2003. He stressed this combination is viewed as positive for the clients, with the intent of combining all the fixed income subsidiaries under Mellon into one fixed income manager, creating an excess of $125 billion in assets under management. Mr. Richter stated the three firms being brought together, (Standish Mellon, Mellon Bond and Service), focus on three different product lines. He explained Standish Mellon was active core, Mellon Bond focused more on indexing and short-term assets and Service Advisors would focus on stable value management. Mr. Richter indicated the benefits of this would be a full product line, the ability to leverage the resources and the ability to run more efficient and effective state of the art technology as a result of being run under one platform as opposed to three.

Mr. Richter gave a brief overview of how the portfolio performed in different sectors of the market. He also reviewed DWP's portfolio for short-term and long-term performance, pointing out the differences between DWP's regular account and the "Highmark" account. Mr. Richter commented on the negative impact of two specific holdings, Phillip Morris, (now called Altria), and Ford Motor. He reported the characteristics of the structure of the portfolio continues to have a significant overweight in the corporate sector of the market versus the Lehman aggregate at approximately 60%. Mr. Richter pointed out some of his recent trades reduced the portfolio duration, making it relatively neutral to the benchmark, brought down the corporate position by selling longer corporate bond positions, reduced corporate holdings by 10% and put it into the mortgage sector of the market, closing the gap in the underweight. He then reported on the "Highmark" portfolio, stating it had a significant overweight in corporates at 75% versus 26% in the Lehman aggregate, and a significant underweight in the mortgage sector.

President Romero inquired what the term “Agency” listed in the corporate bond ratings stood for. Mr. Richter responded Agency securities were agency debentures issued by Fannie Mae, Freddie Mac and other government agency issuers, adding DWP’s portfolio had no holdings in these.

Mr. Mirisola inquired why the Highmark portfolio contained cash. Mr. Richter responded under the Board guidelines, as sales occur in the Highmark portfolio, the proceeds cannot be reinvested. Mr. Mirisola inquired if there were some better investments besides just cash for short-term investing. Mr. Richter responded there were a number of choices, and not having a corporate position, because of the significant overweight there, the Plan can look into shorter dated agencies, or even investing the cash in a six-month time period. Mr. Mirisola noted DWP’s cash position, was at $890 million as of December and is now closer to $1 billion. Mr. Richter responded as mortgages come back, maturities on the regular account flow to the cash position. He suggested the Board consider investing the mortgage on a longer term in the regular account.

Mr. Vazquez inquired if this was something the Board was going to consider today. President Romero clarified it must be an agenda item in order to discuss it. Mr. Wiggs recommended putting the item on the next Board meeting’s agenda due to the large amount of cash. Mr. Richter suggested, in conjunction with the Retirement Board’s consultant, the Board should discuss what is the best way to deploy this cash while going through the manager search process. President Romero commented since Dr. Bernstein, the consultant, was present, she could pass along this concern to PCA.

Mr. Richter briefly reported on DWP’s portfolio corporate bond performance and ratings. Mr. Vellon inquired how Standish Mellon characterized their performance for the quarter from the point they were given a more discretionary mandate, compared to any bogie. Mr. Richter responded it depended on what Mr. Vellon meant by “bogie”, but he felt Standish Mellon’s performance was good. Mr. Vellon inquired what performance comparisons supported the conclusion it was good performance. Mr. Richter responded there are a number of constraints Standish Mellon operates under in DWP’s portfolio, even under their current discretionary mandate. He stated there does exist some bigger positions, concentrated in individual names and a significant overweight in corporates. Mr. Vellon requested if Mr. Richter can provide a market index percentage comparison which shows how well Standish has performed. Mr. Richter stated if he puts it on percentage terms and measures it against the Lehman aggregate index, Standish comes in below the aggregate. Mr. Vellon inquired how much below did Standish come in. Mr. Richter stated for the first quarter, DWP’s account was .94% versus 1.39%, so roughly 46 basis points.

Mr. Vazquez inquired what the total loss was on the liquidation of the Ford position. Mr. Richter responded half of the Ford position was sold at a rough dollar price of 94 and half at a rough dollar price of 98. Mr. Richter then resumed reporting on DWP’s portfolio bond performance.

Mr. Vazquez inquired if the Ford position was sold out of the “Highmark” account. Mr. Richter responded in the affirmative, adding nothing was done with the cash and this was viewed as a tremendous opportunity.

Mr. Richter was excused and left the meeting.

3. The Boston Company Asset Management, LLC Investment Counsel fourth quarter report (December 31, 2002) and first quarter report (March 31, 2003).

Mr. Quinn Stills of The Boston Company approached the table.

President Romero recognized Mr. Stills.

Mr. Quinn introduced himself, stating he was the portfolio manager for the Boston Company who handles two equity accounts, (the historic Boston Company equity account and the historic Highmark account), on behalf of DWP's portfolio. He began by reviewing the portfolio's investment performance as of March 31, 2003, stating overall, they underperformed for the quarter. Mr. Quinn reported they were down 6%, the Russell 1000 value was down 5% and the S & P 500 was down 3.2%. He added, since full discretion, they have been down about 18.3%, the benchmark down 14%, and the S&P 500 down 11%. He indicated Boston underperformed on DWP's account from July through December, but had a very strong performance in the first quarter of this year. President Romero inquired what the performance has been in the full discretion accounts. Mr. Quinn reiterated DWP's account underperformed last year, but has surged in value in the last six or seven months, as many of the higher beta companies that were bought surged in value. President Romero requested a specific number. Mr. Quinn stated the fully discretionary account was in the top 1% year to date, versus other large cap value managers. He offered to submit specific numbers to the Board at a later time.

Mr. Quinn reported, for the quarter the "Highmark" portfolio was down 3.1%, and since inception, down 10.9% with the benchmark down 13.9%. He then summarized the portfolio's sector performance and performance attribution analysis, pointing out the financial services did not do well. Mr. Quinn compared DWP's Boston Company portfolio structure and its economic sector weightings to that of DWP's "Highmark" portfolio structure, pointing out the "Highmark" was more concentrated with very large high-quality companies. He reviewed recent transactions stating AETNA was sold out of both portfolios, Corning was purchased in the Boston Portfolio and they were in the process of purchasing CoAmerican (a mid-western bank).

President Romero inquired, in the wake of the gulf war, did Boston Company see spending levels sustaining. Mr. Quinn responded Boston looks at the conflict with Iraq as the first phase of a longer-term war with Al Qaeda. He expressed, by taking over Iraq, the U.S. now has troops on the borders of various countries and on both sides of Iran, putting them in a position to negotiate more aggressively in terms of getting those governments to cooperate with handing over Al Qaeda suspects and with trying to control the financing sources for Al Qaeda. Mr. Quinn stated since this is just phase one of a long-term campaign, Boston's opinion is there will be an increased spending on a sustained level, benefiting defense companies, in particular, those providing high intelligence and high value added defense capabilities. He then affirmed Boston does envision spending levels sustaining.

Mr. Stills was excused and left the meeting.

4. **TCW Asset Management Company Investment Counsel fourth quarter report (December 31, 2002) and first quarter report (March 31, 2003).**

Messrs. James Tilton, Barr Segal and Stephen McDonald of TCW approached the table.

President Romero recognized the representatives from TCW.

Mr. Tilton began by giving a brief review of DWP's equity portfolio, stating it was down 4.1 and the market down 3.2, but year-to-date, through April 29, the account was up 3.81 and the market was up 4.3. He also added for the month of April, the portfolio was up over 8%. Mr. Tilton then summarized recent portfolio changes and purchases, stating, over the last 3 to 5 years, TCW had substantially outperformed the bogie and has been even over the bogie over the last year.

Mr. Barr addressed the Fixed Income Fund, reporting, towards the end of 2002, there were returns of approximately 12%, and in the first quarter of 2003, the fund was up 1.8%. He stated interest rates have ended their massive decline, and in the fourth quarter of 2002 and 2003, corporate bonds began to substantially outperform treasuries.

Mr. Barr reported there had been difficulty with the Death Benefit Fund, due to the position of Lucent, indicating the fund is recovering substantially in the first quarter and this position has been sold out. He stated the Disability Plan has done very well with its corporate bonds.

Mr. Barr then reviewed the quality rating and sector weightings of the Retirement Fund. He expressed an expectation of interest rates to flounder while investors attempt to figure out whether the economy is going to resume substantial growth. He stated there was a prediction of better economic moves, better stock market and a worst treasury market, so as treasuries are sold off the interest rates will rise to a certain extent.

President Romero inquired if DWP's portfolio always contained agencies. Mr. Barr responded in the affirmative, explaining "agencies" represented U.S. agencies such as Fannie Mae, Freddie Mac, etc.

The representatives of TCW were excused and left the meeting.

5. **Consideration and possible selection of Portfolio transition program services for the DWP Plan. (Proposals received from: BNY Global Transition Management, Northern Trust Global Investment, and Merrill Lynch Investment Managers).**

President Romero introduced Item 5 as a discussion on the Portfolio Transition Program.

Mr. Vellon indicated PCA submitted a letter (April 29) to the Retirement Board regarding their review of transition management options for the Board's Passive Equity Mandate and requested Dr. Bernstein summarize this letter for the Board.

Dr. Bernstein explained the memo was regarding the transition management options for the passive mandates of which Merrill Lynch and Northern Trust have been selected as managers. She noted three potential transition managers were considered (Merrill Lynch, Northern Trust and the custodian BONY [Bank of New York]). She stated, from PCA's point of view, the Board has two different options in selecting a transition manager: 1) splitting the securities into equal parts, giving half to Merrill Lynch and half to Northern Trust, or 2) using the custodian, BONY, to develop their own Russell 1000 index and split it up into the two and hand it directly over to the passive managers. Dr. Bernstein then outlined positive and negative aspects of each option stating they were both viable options. She pointed out option 2 makes more sense, since in terms of costs, BONY has come in with a zero commission option and provided the complete costs (cost of the spreads as well as implementation shortfall costs). She indicated option 1 made sense operationally, because it is much quicker and there is no second step with monitoring and working with the transition managers.

Mr. Vazquez inquired why BONY and Northern Trust are able to transition in one day and it takes Merrill Lynch four days. He also noted the comparison of the incremental cost of using Merrill Lynch versus BONY was $1 million and inquired where Northern Trust compared with the other two. Dr. Bernstein responded, with regards to commission, Merrill came out with $861,000 as opposed to a $1 million, Northern Trust was at $243,000 and BONY was $0. She added if the Board ended up splitting $700 million each, it would come out to half and half at about $525,000 actual cost when using option 1, versus $0 costs for BONY. Mr. Vazquez inquired with option 2, what was the extra step in transferring assets. Dr. Bernstein responded it was just a note, from a recording point of view, of having to monitor and involve an additional party. Ms. Calvache inquired how long it would take. Ms. Bernstein responded she was not aware how long it takes to do the paperwork at DWP, but in terms of the actual trading capability, both BONY and Northern have submitted a proposal for one day to trade the entire portfolio and get it transferred, while Merrill's proposal was a four-day transfer period.

President Romero inquired how much of these were "in-kind" transfers. Dr. Bernstein responded Merrill Lynch has 35 in-kind, versus 40 for Northern Trust and BONY. Mr. Vellon referred to the schedule provided in the agenda packet, clarifying $304 million would be allocated to Northern, which would be "in-kind" and automatically folded into the index in the proportions needed, and then $470 million to Merrill Lynch, consequently out of the $1.4 billion, almost half would be allocated "in-kind". He then referred to the extra funding wherein Merrill Lynch, or the transition manager chosen, would get $230 million (to make the $700 million), and then $396 million for Northern to make their $700 million allocation. Mr. Vellon indicated all three firms had been cooperative in trying to decipher it all and Plan staff have done a great job in working with Northern and Merrill Lynch. He then summarized, out of the $1.4 billion, approximately half of it naturally flows into the index and another $700 million would have to be transitioned in some form, either by crossing or other economical conversion. Mr. Vellon expressed both Northern and Merrill Lynch have indicated they recognize the names from the Board have sufficient liquidity in facilitating a transition, but down the road when moving into the large value, small cap, etc, it will prove more challenging as less liquid positions need to be sold.

Mr. Wiggs inquired how BONY receive compensation if they charge $0 commission costs. Ms. Bernstein responded, when looking at the estimates of the other costs for LADWP, BONY's costs are in line with what other companies charge. She stated the proposal is at $0 because of other opportunities to do other work as DWP's present custodian and they are just looking to broaden their general work with LADWP.

Mr. David Malecek of BONY approached the podium.

President Romero recognized Mr. Malecek.

Mr. Malecek explained the reason BONY is charging $0 is because they want DWP's business and they have the ability to cross against indexes in other markets. Mr. Wiggs requested total cost figures. Dr. Bernstein responded the total cost for Merrill Lynch is $2.8 million, which included a commission cost of $860,000; Northern trust was similar at $2.7 million total cost, with a much smaller commission, but higher spread cost and BONY was at $1.4 million, coming in extremely lower due to the zero commission costs. Mr. Wiggs expressed, if the Board was going to base their decision on cost, he wanted to be sure they had the correct figures. Dr. Bernstein reiterated the Board would definitely save on costs if option 2 were chosen. President Romero suggested if the Board was comfortable with PCA's recommendation of choosing BONY. Dr. Bernstein clarified PCA was recommending either option, and was just pointing out it would be slightly cheaper with BONY, but option 1 is equally viable.

Mr. Wiggs inquired if representatives from any of the three companies had anything to add regarding the figures.

Mr. Steve Malinowski of Merrill Lynch approached the podium.

President Romero recognized Mr. Malinowski.

Mr. Malinowski pointed out, in this type of discussion, it was very difficult to go through all the different comparisons with respect to the numbers the three companies have provided. He expressed the Board should keep in mind the difficulty of getting apples to apples comparisons and should also be concerned with the end result when the transition is complete. Mr. Malinowski further expressed it was virtually impossible to measure the different ways companies present their information and more consideration should be given to their track record from other transitions completed for a similar organization and how well they delivered.

Dr. Bernstein added, if one custodian was selected for this transition, there were still a number of other transitions down the road and it was very important the Board measure what the company does compared to what they promised. There was further discussion regarding cost differences.

Mr. Vazquez then moved adoption of Resolution 03-89, inserting option 2 (BONY). Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Mr. Vellon indicated he appreciated Mr. Wiggs' concerns. He explained a lot of time was spent with the three companies in discussing the details, including the issues raised by Mr. Wiggs. He stated, in the end, there was going to be a post-transition analysis of the execution and the Board and staff can look back and figure out if what the company did was close to what was anticipated. Mr. Vellon also stated there was an element of trust going along with this kind of assignment, because it is hard to predict what the company chosen will actually deliver, and after reviewing the report from PCA, there are a number of transitions all three companies have previously made. He then commented on the time Mr. Malinowski provided in explaining and answering staff's questions. Mr. Vellon emphasized an analysis (post-transition) would be performed and the findings will be submitted to the Board. He indicated if the company chosen does not deliver what they promised, the Board could opt to consider another company for the next transition.

President Romero expressed a desire to discuss two issues regarding the transition. He noted there was $600 million to be transferred "in-kind", which is not an issue, but there is a concern regarding where the remaining $774 million is going to come from and which stocks are going to be sold. He stated, during this meeting, the Board will select two growth managers and in a couple of weeks, two value managers who may potentially want some of this stock the Board wants to sell to make up the $774 million. President Romero suggested waiting another 30 days in order to see what the large cap growth and large cap value want before making the transition. He recognized there is always a potential risk of the market rebounding and inquired what PCA's recommendation would be. Dr. Bernstein responded PCA's position is that it was most important the Board move forward towards the new targets adopted by the Board back in September. She stated the Board will be able to see how the transition managers selected perform, rather than pushing out this decision for a broader group of assets.

President Romero inquired how much money was being allocated to the growth and value managers. Mr. Vellon responded $212 million a piece. Mr. Vazquez suggested the Board make the transfers "in-kind" and transfer cash to the mangers, rather than going through a transition with the balance and then retain those stocks to the extent they can be utilized by the large growth. Ms. Bernstein acknowledged the Board's concerns, stating there were two valid options to pursue. Mr. Vazquez recommended not waiting for the passive and going through with the "in-kind" transfers and fund the rest of the cash directly to Northern Trust and Merrill Lynch, letting them buy their stocks and leaving the remaining ones to be dealt with later. President Romero expressed this brings on another issue, because the Board adopted a motion to put the International search ahead, in order to deploy the large cash position. He then inquired how this would affect what the Board is currently discussing.

Mr. Vellon commented there is $1 billion in cash and $630 million are needed to fund Northern and Merrill, and, if the Board gives them cash, the purpose of moving the International search ahead, to allocate the Board's cash, is technically defeated. President Romero stated he would like to hear PCA's recommendations.

Dr. Bernstein stated the strategy the Board has articulated, which is to leave the cash for transitioning the International portfolio, is a sound strategy, rather than using the cash for the transition to a Russell 1000 index manager. President Romero inquired if PCA's position was to keep it the way it is and moving immediately on the transition. Dr. Bernstein responded in the affirmative.

Mr. Mirisola expressed concerns DWP's portfolio needed more diversification, pointing out more than 30% of the equity portfolio is in the same type investment.

Mr. Vazquez indicated he read the transition date should be undisclosed, and inquired if this had been taken care of. Mr. Vellon responded the transition date should be kept confidential and this would be worked out with BONY. Mr. Mirisola inquired once BONY was given the authority, would they be telling the Board when the transition was taking place. Mr. Vellon responded the Board would be choosing the transition date and this would be covered in the contractual agreement. He clarified staff was still in the process of working out the passive manager contract with Northern Trust and Merrill Lynch, and until this is in place, staff could not give BONY a date. He added progress reports would be submitted to the Board. Mr. Mirisola inquired what the advantages were in specifying the dates as opposed to giving BONY a discretionary period. Mr. Vellon explained, if one has 10 million shares of a certain company to dispose of on a certain day, there is value in that information, especially if the daily volume of the security is much less than what will be sold in the open market. He stated there is intrinsic value in the knowledge of this, adding a part of the contract is going to put BONY in a situation of acting as fiduciary and they will be held to confidentiality standards relative to the information provided to them. Discussion continued among the Board members and it was the consensus to keep the date confidential.

President Romero expressed a second issue regarding the fees of one of the passive managers and stated he did not want any transitioning taking place until the fee issue had been resolved. Mr. Vellon responded Plan staff were working on this and he was confident everything would work out, but they are still waiting for the parties to get back to them. President Romero inquired if it was all right to go forward with the other managers. Mr. Vellon responded in the affirmative.

President Romero stated the Board would go by PCA's recommendation of moving forward as discussed. Mr. Vellon indicated staff would work with Merrill Lynch, Northern Trust and BONY on the contracts and would submit a progress report to the Board.

6. Possible selection of Investment Management Firm or Firms, from those responding to the Plan's Request for Proposal Re: Large Capitalization Growth.

Mr. Vellon introduced Item 6, noting the Board interviewed 10 finalists for the large value growth sector and the interviews were completed. He also noted there was a brief summary of the proposals by PCA and the official minutes provided to the Board reflect what was said in the interviews. Mr. Vellon stated, within the asset allocation structure adopted by the Board, two firms were to be selected at $212 million each. He stated, as President Romero pointed out, eventually there will be transition issues in connection with this allocation.

President Romero expressed his desire to develop a better method of selecting managers and inquired if the Board members had any ideas. He then expressed he felt most comfortable with INTECH, because under very difficult circumstances with the economy, they have a long-term history of favorable returns. He stated he was open to several of the other firms and wanted to hear the thought process of the other Board members in order to make a decision on his second choice.

Mr. Vazquez indicated INTECH was one of the four companies he was considering also, due to their use of a mathematical structure for determining which stocks to buy and the weightings. He stated he was also considering Fred Alger, Wellington Management and TCW. Mr. Vazquez expressed Fred Alger gave an excellent presentation, they had a good team approach, used a commingled fund, he was comfortable with their turnover margins and they presented their staff well. He noted Wellington's insurance issues had been resolved and expressed he favored them because of their different evaluation approach, 300 to 500 basis points over the index, they are 100% employee owned and have a commingled account. He stated TCW gave a very good presentation, have $15 billion under management, low turnover on the stocks and he liked their approach to inclusion.

Mr. Wiggs stated he was not present for the interviews so he would just listen to what the rest of the Board had to say.

Mr. Mirisola expressed he liked INTECH's quantitative approach of choosing stocks. He stated, in addition to the firms Mr. Vazquez mentioned, he favored Goldman Sachs, Fred Alger and TCW for the same reasons Mr. Vazquez had given.

Ms. Calvache indicated she was impressed by INTECH, due to their quantitative method also. She stated her second choice was Fred Alger and third choice Dresdner.

Ms. Bertrand stated she was also impressed with INTECH and her second choice was TCW.

Mr. Wiggs inquired if PCA had given the Board a recommendation or rankings regarding the firms interviewed. Dr. Bernstein gave a brief summary of the rankings, explained PCA's scoring methodology and reviewed how each firm ranked. She added it was also listed if the firms met the RFP's minimum qualifications and if there were any caveats.

Mr. Vellon inquired what the top three firms ranked by PCA were. Ms. Bernstein responded, out of the top 10, Wellington was first at 88 out of 100, T. Rowe Price second at 86 and Dresdner third at 85. Mr. Mirisola commented Dresdner was moved down, tied with Turner, with an 81. Dr. Bernstein clarified, since the interview process took place, Dresdner lost both a CIO and an Associate CIO, lowering their points; subsequently TCW came in third equal with Goldman Sachs at 82. She stated Turner and Dresdner were at 81, Alger at 80 and INTECH at 75.

Mr. Wiggs inquired why INTECH had such a low score. Mr. Mirisola explained the models used by PCA to graph the firm's performance do not take in account the type of quantitative method INTECH uses. Ms. Bernstein commented INTECH is one of the more quantitative firms and tend to have a smaller cap bias in their portfolio given the way they select stocks, which is neither bad nor good. She suggested the Board keep this in mind, since this is a large cap portfolio.

Dr. Bernstein indicated PCA recommends the Board not select 2 firms, out of the 10, who tend to diversify in the same way, since there will tend to be more overlapping in the stocks the firms hold. Mr. Vazquez commented Mr. Rue and Mr. Emkin made statements that any of the10 firms were capable of handling the funds in DWP's portfolio. Mr. Vellon recommended the Board not to base their decision in selecting a firm so much on PCA's rankings, because it should be the Board's decision on which firm they feel most comfortable with. Discussion continued among the Board members. Mr. Mirisola moved to select INTECH as one of the two growth managers. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Mr. Vellon reminded the Board, as they make their selections this will be reflected in resolution 03-90 in the Board packet.

Ms. Calvache moved to select Fred Alger as the second growth manager. Mr. Mirisola seconded the motion and it was carried after the following vote:

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

President Romero inquired if the Board has just selected the two growth managers, would it be appropriate to have these firms pick "in-kind" stocks out of DWP's portfolio before doing the transitions. Dr. Bernstein stated she would have Mr. Rue and Mr. Emkin get back to the Board on this matter.

7. Consideration of Responses to the Plan's Request for Proposal (RFP) for Large Value Domestic Equity and possible selection of a manageable number to be invited for interview.

Mr. Vellon explained Item 7 is intended for the Board to select a number of firms to interview for the large value domestic equity. President Romero inquired how many firms were interviewed for large growth. Mr. Vellon responded 10. After some discussion, it was the consensus of the Board that 10 firms was too many to interview. Mr. Vazquez inquired how many managers was the Board selecting for the large value. Mr. Vellon responded two.

A discussion ensued regarding PCA's rankings and whether the firms met DWP's qualifications without any caveats. Dr. Bernstein stated Merrill Lynch and Alliance had two issues in terms of qualifications, but were ranked high on overall general characteristics. Mr. Wiggs inquired what were their two issues. Ms. Bernstein stated Merrill Lynch did not have three existing portfolios that were over $250 million, which is one of DWP's criteria, and Alliance had recently been censored by the SCC and litigation is pending. Mr. Wiggs inquired if these were things the Board has decided will be absolute or can be discussed. Mr. Vellon indicated the last time the Board considered the growth managers it was decided to focus on the firms meeting all the qualifications, and then three were added that did not meet them. Discussion ensued among the Board members regarding how many managers to interview.

Mr. Vazquez inquired about Mr. Mirisola's previous concerns of the Board considering or interviewing firms who did not meet the minimum qualifications, and asked where he stood on this. Mr. Mirisola expressed he still felt the same way, stating he did not feel the Board should diverge from the RFP, nor waste time with firms who cannot meet the minimum qualifications or have caveats.

Mr. Vazquez suggested interviewing the top seven firms meeting all qualifications, from the list provided by PCA. Mr. Wiggs expressed he relies on the recommendation of the consultants, and choosing the top seven from the list would omit firms that were ranked in the top 10 by PCA. Mr. Vazquez responded those firms would be eliminated because they do not meet the minimum qualifications of the RFP.

Mr. Mirisola commented PCA was asked not to rank the firms, but they still continue to do so. He explained PCA uses a method of ranking which is not quantifiable, but a qualitative approach, giving points to firms having nothing to do with the firm's performance. Mr. Wiggs inquired if the Board does not use PCA's ranking, how do they decide which seven firms to interview when13 firms meet the RFP's minimum qualifications with no caveats. Mr. Vellon responded the proposals were provided to assist the Board in this decision. Dr. Bernstein agreed with Mr. Mirisola, stating PCA's review process is broadly created for many different clients and expressed the Board needed both the RFP's minimum qualifications and PCA's ranking to factor in which firms to interview. Discussion ensued among the Board members regarding which firms to include in the interview process.

Mr. Joseph Silver of Merrill Lynch approached the podium.

President Romero recognized Mr. Silver.

Mr. Silver indicated Merrill Lynch did not have three portfolios of $250 million, but if the intent of the minimum qualifications was to determine whether that particular team manages significant assets, then the large cap value team at Merrill Lynch meet the assets under management as these total $4 billion. Mr. Vazquez inquired how many portfolios did Merrill Lynch have that are $250 million or equivalent. Mr. Silver responded Merrill has one public fund totaling $250 million and two other accounts that are roughly $100 million a piece.

Mr. Silver returned to the audience.

More discussion continued among the Board members regarding PCA's ranking and which firms to include in the interview process. President Romero expressed a concern about the many firms not applying because they did not meet the minimum requirements. After more discussion it was the Board's decision to interview the top seven firms based on them meeting the RFP's minimum qualifications and PCA's scoring. Mr. Mirisola listed the firms as follows: T. Rowe Price Group; Wellington Management Company, LLP; LSV Asset Management; Barrow, Hanley, Mewhinney & Strauss, Inc.; Capital Guardian Trust Company; State Street Global Advisors and Bear Stearns Asset Management Inc. Dr. Bernstein noted the firms were re-ranked based on the minimum qualifications because at the last manager search the Board was not really interested in looking at the rankings, which is why the firms are now listed based on the qualifications and caveats. She then pointed out the Board would be omitting two out of the top seven firms ranked, Merrill Lynch and Alliance, because of the minimum qualifications. Mr. Vazquez expressed it was unfortunate the Board is eliminating large money managers who manage significant portfolios because of specific criteria.

Mr. Wiggs expressed he would prefer to include Merrill Lynch because the Board has already dealt with them and they are a high quality firm, but the rest of the Board might oppose, since they do not meet the minimum qualifications. President Romero suggested sticking with firms meeting the minimum requirements of the RFP, stating there may be other opportunities for Merrill to qualify for one of the other upcoming strategies. Mr. Mirisola then moved to interviewing the top seven firms as follows: T. Rowe Price Group; Wellington Management Company, LLP; LSV Asset Management; Barrow, Hanley, Mewhinney & Strauss, Inc.; Capital Guardian Trust Company; State Street Global Advisors and Bear Stearns Asset Management Inc. Mr. Vazquez seconded the motion and it was carried by majority after the following vote:

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

Mr. Vazquez requested the interviews be done in one day with a break for lunch. Mr. Vellon expressed this would not be a problem.

8. Consideration of In-Kind transfers for Russell 1000 Index – Passive Domestic Equity

Mr. Vellon indicated item 8 was previously discussed and it is anticipated $600 million will be transferred "in-kind" and the difference of $800 million (for a total allocation of $1.4 billion) will be left for the portfolio transition program.

The Board meeting was adjourned at 12:07 p.m.

JAVIER ROMERO President	DUAMEL VELLON Secretary

SILVIA TESSENEER
Recording Secretary