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

MINUTES – JUNE 11, 2003

Present:

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

Absent:

Anne E. Cho	Commissioner
Dan Mirisola	Vice President

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mike Wilkinson	Deputy City Attorney
Neil Rue	Pension Consulting Alliance (PCA)
Allan Emkin	Pension Consulting Alliance (PCA)
Various Representatives	From the eight Investment Management Firms interviewed.

President Romero called the meeting to order at 9:14 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

<u>PUBLIC COMMENTS</u>

There were no public comments.

1. **Consideration of draft contracts for the Russell 1000 allocations**

    a. **Northern Trust Investments, Inc.**

Ms. Bhatia stated the draft contract with Northern Trust Investments Inc. was included the Agenda packet for Board review and approval. Mr. Wiggs moved for approval of the draft contract presented, seconded by Ms. Bertrand and carried unanimously after the following vote:

Ayes: President Romero, Ms. Bertrand, Mr. Wiggs, Mr. Vazquez, Ms. Calvache
Nays: None

Mr. Vellon noted the fee structure proposed by Northern Trust and Merrill Lynch is the same.

b. Merrill Lynch Investment Managers

Ms. Bhatia reported the contract with Merrill Lynch had unresolved issues and she expected having the contract ready by the next Board meeting. She asked Mr. Wilkinson to elaborate on his contracts with Merrill Lynch Lawyers.

Mr. Wilkinson indicated Merrill Lynch had proposed another contract structure, which was unacceptable trying to rewrite the Plan's contract format. He indicated representatives from Merrill Lynch have now agreed to maintain the Board's contract formats the same as Northern Trust. Mr. Wilkinson noted the contact was now with Merrill Lynch and he expects to hear form them soon.

2. Interviews and possible selection of an Investment Management Firm or Firms (From those responding to the Plan's Request for Proposal – Large Value Domestic Equity)

Mr. Michael E. Nyeholt, Senior Vice-President and Mr. Theodore R. Samuels, Senior Vice-President (Capital Guardian Trust Company) approached the table.

a. Capital Guardian Trust Company

President Romero recognized the representatives from Capital Guardian.

Mr. Nyeholt thanked the Board for the opportunity and introduced himself and Mr. Samuels.

Mr. Nyeholt began by giving an overview of the company and explaining his and Mr. Samuels's responsibilities within the company. He pointed out Capital Guardian has and is currently providing clients with superior long-term results. He noted the staff has a tremendous history and experience in management of US equity portfolios. He reported the parent company, Capital Research and Management Company, was founded in the 1930's, while the institutional branch, Capital Guardian Trust Company, was founded in 1968. He referred to the company's organizational stability as one of their most important components, noting they are employee owned, 100%, by either active or recent retirees.

Mr. Nyeholt explained Capital Guardian's investment philosophy and process. He explained they have over 167 analysts who do bottom-up research to determine the stock selection for the client's portfolio. He stated their portfolio management is very consistent across client portfolios since the team manages all the US equity accounts. He added Investment management is their only business with no brokerage or investment banking ties. He indicated the research performed is proprietary being used only for the client, and is not sold or used for anything else. He discussed diversity, indicating their research and investment staff is very diverse consisting of a variety of culture, education and nationalities with over 38 countries represented.

Mr. Samuels began detailing the investment process. He provided investment results and stated the way they produce results is through research. He highlighted global research, as his company believes no U.S. company can be thought of as a US only environment.

Mr. Samuels addressed Capital Guardian's investment teams and methodology including their use of Multiple Portfolio Management Systems (MPMS). He explained under MPMS their portfolio is broken down into several parts and handled by different teams with complimentary styles. He noted everyone contributes to bring about the best results for the portfolio and the client.

Mr. Vellon inquired if all the portfolios have the same securities in them and Mr. Samuels responded in the negative. Mr. Vellon then inquired if this would create a dispersion of returns within the company. Mr. Samuels responded it could, however, in the end the differences in returns would be minimal.

Mr. Rue inquired if Mr. Samuels could explain how the portfolio was split up and who had the largest portion. Mr. Samuels explained there was a little shading in which team got what but research had the largest portion, which amounted to about a third.

Mr. Samuels explained their stock selection process and sell discipline.
Mr. Vellon inquired about the turnover rate being between 60 and 132%.
Mr. Samuels explained their proposal was looking at the co-mingled fund and the constant contributions and withdrawals going on. Mr. Vellon inquired about the separate account turnover rate and Mr. Samuels responded it was between 30 and 40%, depending on the environment. President Romero inquired as to how many stocks were in the portfolio and Mr. Samuels responded 60 – 80.

President Romero inquired if fees were negotiable and Mr. Samuels responded in the negative. Mr. Nyeholt added they charge all clients the same fee schedule.

President Romero inquired about Capital Guardian's inclusion policy. Mr. Nyeholt explained they use the best and brightest people regardless of their background, race, etc. and do trade with minority firms. President Romero inquired about the executive staff and the low minority numbers and what Capital Guardian would do about the makeup if they were chosen to manage the account. Mr. Nyeholt reiterated about the policy using the best and brightest people and did point out the head of the research was of a minority race and there were more women in positions of power across the company. He went on to say the world is a diverse place and the investment world is a diverse place so it behooves Capital Guardian to be as diverse as well. Mr. Vazquez inquired about emerging brokerage firms and how they keep the cost down for the client. Mr. Samuels explained when the capabilities and prices are comparable, they endeavor to do business with the firms the client directs. However, they will not sacrifice execution, but when it is deemed to be comparable, they certainly try to direct them at the client's request, but they would not sacrifice execution.

Mr. Vellon inquired if Capital Guardian's lack of industry limits, could present a risk of industry concentration and also whether their employee a compensation structure, tying the results of the clients to the performance of the individual manager could lead to risk control issues. Mr. Samuels explained if they tried to compensate for a poor year by being aggressive towards the end of the year and failed, the account would suffer and this is why the research is so important. He added they believe the investments and relationships are long term in nature and their focus for compensation involves a four (4) year weighted rolling average discouraging the investment managers from taking unduly large risks. Mr. Samuels answered the question regarding risk control explaining they combine the different styles, backgrounds and convictions to get internal diversification. Mr. Nyeholt added the portfolios are reviewed to ensure no one industry is weighted too heavily and is discussed among the investment managers. Mr. Samuels included if the client feels one stock is more than 5% of the portfolio, then a limit could be placed on the stock and Capital Guardian would honor such request. After more discussion the representatives from Capital Guardian were excused.

Messrs. Nyeholt and Samuels left.

General Manager David Wiggs left temporarily.

Mr. Edward Baldini, CFA, Vice President, Associate Portfolio Manager and Mr. Jack O'Connor, Managing Director, North America Institutional Sales (MFS Investment Management) approached the table.

b) MFS Investment Management

President Romero recognized the representatives from MFS.

Mr. O'Connor introduced himself and Mr. Baldini. He proceeded to present an overview of the company and provide background on MFS.

Mr. O'Connor asked the board to keep in mind 3 key themes during the presentation which were 1) Get the resources, 2) Stability of the organization, and 3) Ability to repeat the process going forward. He stated MFS has been in business for over 75 years providing clients with strong risk adjusted returns. He indicated SunLife has owned them since 1982, under a great relationship and have implemented an employee ownership program, which is now at 22%.

Mr. O' Connor stated they have 45 research analysts and 32 portfolio managers who have a great working relationship. He noted MFS believes in looking at an industry every 4 to 5 years with a fresh set of eyes. He elaborated on MFS training programs for analysts.

Mr. O'Connor indicated MFS tries to outperform the benchmark and wants to perform in the top quartile of their peer group with less risk while achieving these goals. Mr. Baldini explained MFS performance over long periods of time.

Mr. Vazquez inquired about the portfolio managers. Mr. O'Connor responded there were 2 lead managers supported by Mr. Baldini. Mr. Baldini explained all the managers contribute to the process, however; Mr. Gorham and Ms. Nurme are the ones accountable for the portfolios.

Mr. Baldini started a detailed analysis of MFS's philosophy and approach. He stated they look for out-of-favor and undervalued stocks, which have something currently going on which will prove fundamentally advantageous in the future, with a low downside risk if something goes wrong. He added they do not go with quantative research since this looks at past performance and MFS is looking for things, which will help the company go forward and give better returns. He indicated there are 4 drivers for this: 1) fundamental research, 2) consistency of approach, 3) Quality, and 4) comprehensive consideration of risk. He explained another element of the portfolio is the above average dividend yield, which contributes going forward.

Mr. Baldini pointed out the consistent focus on value and quality. He referred to the relationship of the portfolio to the Russell 1000 Book Value. He explained MFS's value price was more consistent than the Russell 1000 and helped to produce better returns in 2000 when the market turned. He indicated MFS does not invest in distressed equities but find high quality inexpensive companies to invest in. He explained before MFS invests, there are standards to be met, including cost on an absolute basis. Mr. Baldini noted they also look for catalysts, which help the company improve over time, and industry dynamics as critical to company growth. He elaborated on one investment as an example of what MFS looks for. He went on to describe how a portfolio is built, using risk analysis, sector weights, and characteristics.

Mr. O'Connor closed by focusing on performance, stating how consistently strong it has been, also how MFS meets objective for its clients of long-term results with less risks.

President Romero inquired about the number of stocks in their portfolio and Mr. Baldini responded 100 stocks on average. President Romero inquired about turnover and Mr. Baldini responded around 50 percent.

President Romero inquired if the fees were negotiable and Mr. O' Connor responded in the negative. Discussion ensued regarding tracking error and MFS use of minority firms and step-out programs. Mr. O'Connor responded they use these programs, primarily on execution.

Mr. Vellon inquired about the "sell discipline" and latitude by portfolio managers. Mr. Baldini responded all the portfolios are managed together and trades implemented together. He added, unless the client has specific requests, the trades, once decided, are done at the same time. Mr. Vazquez inquired as to what triggers the buy/sell decision. Mr. Baldini elaborated on the 3 drivers for buy/sell decisions: 1) valuation, 2) catalyst, and 3) industry backdrop.

Mr. Vellon inquired why MFS likes to use ADRs (American Depositary Receipt) as part of their strategy. Mr. Baldini responded the companies they are currently researching, who have dominant positions in the US, are foreign-based, but they never invest in local foreign companies. Mr. Vellon wanted to know what percent of the portfolio would be ADR-based. Mr. Baldini responded it was typically 10%, but now it is at 8%, however there are clients who have specified they want US-only stocks and that is how those accounts are run.

Mr. Vellon touched on a SEC investigation in 2001 and asked what was it about. Mr. O'Connor explained there was an individual in the fixed income department who had received information 10 minutes prior to an announcement regarding treasuries and thought it was public knowledge, so he made a decision. He added, even though it did not impact any portfolios, MFS identified it, went to the SEC and terminated the individual and the SEC is going to make an announcement in the future. After more discussion representatives from MFS were excused.

Messrs. 'O Connor and Mr. Baldini left.

President Romero called a brief recess at 10:25 am.

[Recess]

The meeting reconvened at 10:38 am.

Mr. Christopher Dyer, Vice President, US Institutional Sales and Mr. John Linehan, CFA, Vice President (T. Rowe Price) approached the table.

c) T. Rowe Price

President Romero recognized the representatives from T. Rowe Price.

Mr. Dyer introduced himself and Mr. Linehan and thanked the Board for the opportunity to make a presentation on their Large Cap Value Strategy.

Mr. Dyer made a brief overview of T. Rowe Price including some background. He indicated a three-person team, with an average 23 years of experience, runs the portfolio collectively. He pointed out Deborah Veverka, runs the Institutional Client Service department and has served 20 + years in charge of the Honeywell pension plan and is very familiar with defined benefit plans, pension assets, and is a key member of the team. Mr. Linehan added she was also on the advisory board for the Minnesota State Board of Investments.

Mr. Dyer pointed out they manage $15 billion and have the experience managing institutional portfolios and the scale to manage this particular assignment. He also presented a representative listing of institutional clients. Mr. Dyer presented the research resources they use to identify and research the companies which go into the portfolio. He also identified the fact they were one of two firms in the final selection process for not only the Large Cap Value search but also the Large Cap Growth search and it speaks to the quality of the research and the consistency of the investment process firmwide.

Mr. Linehan stated what differentiates T. Rowe Price from their competitors is their firm commitment to a steady, stable investment process. He noted they achieve this by starting with a strict valuation discipline by focusing on relative value relationships. He added they focus on large cap value companies, who are underpriced in terms of relative price/earnings, relative price/sales, and relative dividend yield. He indicated they have a very long-term investment horizon with the average life cycle of a stock being around 3 years translating into low turnover, typically 25 to 40%. He added in the investment world there is an old adage about picking a time or a price, but never both. Mr. Linehan explained they focus on price and the disappointed valuations and leave the catalyst to emerge at a later date. He provided examples of a company they recently added to their portfolio.

He explained controlling risk starts with the company level in selecting stocks. He added another way they control risk is by selecting companies with average or above average quality, this being fairly strong balance sheets, very good cash flow, and products or franchises which are important to people. Mr. Linehan stated they have 51 research analysts supporting the product on a global basis. He noted they have contrarian approach to investing, focus on relative value relationships (with emphasis on higher quality companies) strong commitment to fundamental research, longer-term time horizon, which translates into lower turnover and diversified portfolios.

Mr. Vellon inquired if they thought of themselves as a deep value investor. Mr. Linehan responded in the affirmative. Mr. Vellon also inquired if their turnover ratio fluctuates between 9 and16%. Mr. Linehan responded their turnover percentage fluctuates between 25 to 40%.

Mr. Vazquez inquired what the definition of contrarian approach means. Mr. Linehan responded as an investor, they look past the negative sentiment, and see opportunities for the company on a longer term.

GM David Wiggs returned.

Mr. Linehan went through their investment strategy with some examples. He pointed out they run a fairly flat portfolio, stating one of the things to avoid is value traps. He added they do not put a huge investment into any one stock, even if they like it. He explained doing this may create a risk to the portfolio, and, if the investment goes bad, it significantly hurts the portfolio.

Mr. Vazquez inquired as to the largest holding percentagewise. Mr. Linehan replied their largest position is about 2.3%.

President Romero inquired if the fees were negotiable. Mr. Dyer responded in the negative. President Romero wanted to know about their tracking error. Mr. Linehan responded just above 4%. President Romero then inquired as to the inclusion policies. Mr. Dyer responded they have a very robust EO policy as one of the leading employers in the city of Baltimore. He added they have demonstrated the ability to hire and retain individuals of all ethnicity and females as well. He pointed out over 52% of their employees are female. He stated there were many policies and procedures regarding inclusion. He included a number of clients have requested to use minority and women owned firms and T. Rowe has honored those requests. President Romero inquired if their primary concern was best execution. Mr. Dyer replied their primary concern is best execution.

Mr. Vellon inquired about the investment strategies concerning hedge strategies (options, futures) and foreign securities. Mr. Linehan responded they have not used hedge strategies for the last 3 years and concerning foreign securities there was only one in the portfolio at this time. He indicated their primary basis is domestic investments. Mr. Vellon inquired about the turnover in 2002 being unusually high. Mr. Linehan replied it was about 52% due to putting all the accounts on a common platform in order to decrease dispersion between the accounts. He pointed out turnover was at 22% during this time period for the year.

Mr. Vellon inquired about their personnel loss concerning their Richmond office. Mr. Dyer explained during the late 80's, they had hired a couple of gentlemen based in Richmond who ran stable value portfolios and worked fine for the next 12 –13 years. He added when the company decided to merge the Richmond office with the Baltimore office regarding fixed income and stable value, the company asked the gentlemen to move to Baltimore and they had decided not to make the move due to personal reasons.

After more discussion Messrs. Dyer and Linehan were excused and left.

Ms. Laurie Deaton, CFA, Vice President and Mr. John Ryan, Senior Vice President, Managing Partner (Wellington Management Company) approached the table.

d) Wellington Management Company

President Romero recognized the representatives from Wellington.

Ms. Deaton and Mr. Ryan introduced themselves and thanked the Board for the opportunity to make this presentation. Ms. Deaton gave a brief overview of the company and their responsibilities.

Ms. Deaton stated Wellington is a privately owned firm, which gives independence and minimizes the business risk. She explained the value approach is designed to add 200-400 basis points additional performance above the benchmark over a long-term period. She indicated their staff consists of 294 investment professionals and they constantly reinvest into the team. She noted their mission statement of the firm is "Client, Firm, Individual". She also pointed out the many clients they have for the value fund.

Mr. Ryan started off his presentation by stating they are a large firm with $300 billion in assets and have been in business since 1928. He noted they have very dedicated boutique type investment approaches and their belief in value investing is fundamentally based (dividends, cash flow, earnings). He indicated there has been no turnover on the team for the last 9-10 years and their core team has 15 – 20 years of investing experience. Mr. Ryan noted Wellington uses the best people available to invest the client's money with the belief experience counts. He added there is a control person who is on the team, but not involved since he oversees the work and makes sure the team delivers what it promises from the start of the assignment. He described how the team works in conjunction with the global analysts with the portfolio at the center of it all. He explained the different departments (value, growth, etc.) meet daily exchanging ideas. He noted the reason the value market does better than the stock market in general is 1) dividend yield advantage and 2) not tied to the capital spending cycle. He indicated Wellington, in dealing with value, looked for companies with better dividend yields and not fighting with capital spending cycles. He further explained the decisions are based on proprietary research and are contrarian in that their investments are done with solid companies who are temporarily out-of-favor. He discussed their sell discipline noting the prices are fixed and, even if the stock is skyrocketing, once it hits the price on the sheet, it is sold. He noted this is also how loss is limited. Mr. Vazquez inquired about when the purchase of a stock happens and wanted to know if a target price is set then. Mr. Ryan responded it was. He added, after working 20 years in the business, one needs to put his money only when one knows what he is doing.

Mr. Vellon inquired how often their "sell" chart is updated. Mr. Ryan responded he updates it everyday, but the formal review is done every month. Mr. Vazquez inquired about the average holding period. Mr. Ryan explained they have yearly turnover rate of 15-25% and 3-5 year holding period on average. Ms. Bertrand inquired as to the number of stocks in the portfolio. Mr. Ryan answered 60 to 80 stocks.

Mr. Ryan went over how the team gets its ideas for choosing stocks/companies to invest in, such as consolidation, misunderstood negative events, and catalysts. He went over sector weighting within the portfolio.

Mr. Ryan went over the portfolio characteristics to prove the product was value driven. He explained how the portfolio has acted over a period of 7 years and how Wellington has outperformed the competition over the past 9 years.

Ms. Deaton went over the key points of Wellington which were 1) value discipline, 2) long term stable team, 3) working within the focus of Wellington, and 4) additional resource ability to work with client consultant. President Romero inquired if the fees were negotiable. Ms. Deaton answered in the affirmative.

President Romero inquired about the inclusion policies. Ms. Deaton responded Wellington strives to use all types of business entities, not only in the brokerage arena but in other areas as well. President Romero then inquired about the reasons for the unit performance in 2002. Mr. Ryan they were wrong in some of the investments they made (on the analysis) and they do take on some business risk and shed the valuation risk. He made reference to a cable stock they invested in where all the information was not disclosed to them by the company, ultimately hurting performance.

Mr. Vazquez inquired as to stock analysis in the future to avoid such mistakes. Mr. Ryan responded they need to and will be more aware of what is going internally within the companies.

Mr. Vellon inquired as to their contrarian style and if it was consistent with "deep value style". Mr. Ryan responded in the negative and explained they do not invest in companies with one foot in bankruptcy. He noted they look for companies with temporary problems.

After more discussion, Ms. Deaton and Mr. Ryan were excused and left.

President Romero called for a recess at 11:48 a.m.

The Meeting reconvened at 11: 55 a.m.

Mr. Higgins, Mr. McCluskey and Ms. Green, (all of Bear Stearns Asset Management, Inc.), approached the table.

e) Bear Stearns Asset Management, Inc.

President Romero recognized the representatives of Bear Stearns.

Mr. Higgins introduced himself, along with Mr. McCluskey and Ms. Green and provided a brief background for each representative. He then began with an overview, indicating the firm was a wholly owned subsidiary of Bear Stearns, which is a publicly held company. Mr. Higgins reported Bear Stearns focuses on risk management and sustainable steady growth, the firm is 40% employee owned, holds $32 billion in capital and currently has $21 million under management. He added, in the last six years, the firm has doubled their assets and staff. Mr. Higgins emphasized Bear Stearns was separate and distinct from the operations of the broker/dealer (Bear, Stearns & Co. Inc.). He indicated the firm's $21 billion in assets was equally divided between fixed income, equities and alternative investments, with $3.5 billion in Large Cap Value.

Mr. McCluskey listed a concentrated portfolio of 45 to 50 stocks, value with a catalyst, a disciplined investment process and an experienced team as key factors responsible for Bear Stern's performance over the last decade. He then summarized Bear Stearn's investment philosophy, stating the firm puts together a portfolio of companies selling below what is estimated their intrinsic value to be, possessing improving business fundamentals and strong franchises. He added, over time, this leads to outperformance.

Mr. Vazquez commented Bear Stearns was the fifth out of eight firms to be interviewed by the Board and they all seem to have the same investment philosophy with one or two minor differences. He then inquired what distinguishes Bear Stearns from the other firms. Mr. McCluskey responded their philosophy and process remaining similar to that in the past, the same key personnel running the money and being a small team separates them from other firms.

Mr. McCluskey elaborated on Bear Stearn's Large Cap Value equity investment process in selecting stocks for the portfolio. He stated the firm looks for companies with the best risk reward (with a 3 to 1 upside versus downside ratio) and companies that focus on competitive advantage that is sustainable over time. Mr. McCluskey indicated Bear Stearns does not purchase more than 4% of any one name, will not put more than 25% or two times the benchmark weight in any one sector and not more than 25% of the portfolio in market caps between $2 billion and $10 billion.

Mr. Vazquez inquired what was Bear Stearn's separate criterion.
Mr. McCluskey responded the firm would not put more than 25% of the portfolio into any one sector or two times the benchmark weight, whichever is greater.

Mr. McCluskey discussed how Bear Stearns estimates the intrinsic value of every firm they invest in, and described their sell discipline. He pointed out the firm cannot execute this to precision but is able to attain a fairly good idea of what a company is worth, with a goal of buying it at a significant discount. Mr. McCluskey listed reasons the firm sells stock, such as, when a company reaches its estimate of intrinsic value, the emergence of a new investment with better risk/return, and if Bear Stearns is wrong in their original analysis.

Ms. Green reviewed Bear Stearn's annualized rates of return, indicating they have added 740 basis points of performance over their benchmark, adding, over the market cycle, the firm plans to add 200 to 300 basis points. She reviewed the risk adjusted returns, pointing out Bear Stearn's has been in the top decile among their peers for the past five years, through diversified stock selection and diverging from the index in selecting securities. Ms. Green pointed out when the Russell 1000 value benchmark was up over the past five years, Bear Stearns was up 22% more, which is better than 98% of their peers. She indicated the firm had a value oriented discipline and was not looking to outperform the S & P 500 when it is up, but does want to add value versus their index when it is up. Ms. Green reported, when the Russell 1000 value has been down over the past five years, Bear Stearns captured just a percentage of this downside, which was better than 68% of their peers. She indicated her firm would add value for the client in up markets, and more importantly, shield the client's portfolio from down market swings.

Mr. Higgins addressed Mr. Vazquez's previous question, emphasizing what separates Bear Sterns from the other firms is their concentrated portfolio of 45 to 50 of their best ideas (using a highly complementary strategy), dedication to investment style and market cap, their long-term record of performance and the fact they are well-positioned for the future.

President Romero inquired what Bear Stern's portfolio turnover was. Ms. Green responded historically it had been in the 39% range, but, in the past 5 years, it had been somewhat elevated to 60% due to the increased volatility in the markets.

President Romero inquired if the firm's fees were negotiable. Mr. Higgins responded in the affirmative.

President Romero requested the representatives give a brief synopsis of Bear Stern's inclusion policy. Mr. Higgins responded Bear Sterns has tried to be on the forefront in terms of minority and women hiring, indicating the numbers submitted in the RFP reflect this. He stated, in terms of the emerging manager program, it tended to be regional, which requires different percentages for different regions. President Romero inquired, regarding the trades, did Bear Stearns have "step out" programs. Mr. Higgins responded in the affirmative.

Mr. Wiggs noted the numbers presented to the Board show a 5-year annualized return of about 0.9% and two months later it jumped to 4.25%. Mr. Higgins explained there has been a remarkable turnaround in the market in the past five years. He stated the Russell 1000 value has gone up 300 basis points in two months.

Mr. Vellon noted Bear Stearns reported there were 45 securities in their portfolio and indicated this was an area separating them from the other firms. He then inquired what happens with this high concentration if a bet goes bad. Mr. McCluskey responded when looking at the firm's tracking error, it is not considerably higher than many of their competitors and their standard deviation is very competitive because they monitor their bets very closely, both on a stock by stock and sector by sector, and versus the market cap. He stated most of their value added has come from stock selection and not huge sector bets.

After more discussions Mr. Higgins, Mr. Stearns and Ms. Green left.

Ms. Jacobsen, Ms. Tisdale and Ms. Raynes, (all of State Street Global Advisors), approached the table.

Mr. Vellon left momentarily

f) State Street Global Advisors

President Romero recognized the representatives from State Street.

Ms. Raynes introduced herself and her colleagues and began with a brief overview of State Street Global Advisors (SSGA). She expressed the firm was technically a bank holding company but very different than other financial institutions that do banking. Ms. Raynes stated SSGA is focused on three main business lines: 1) custody, 2) trading related services and 3) investment management. She added they were not involved in investment banking or lending and have no retail activity and, consequently, they have no conflicts of interest.

Ms. Raynes reported, at the end of March, SSGA had just under $800 billion in assets, which remarkably is very close to the amount in assets at the end of last year. She indicated SSGA was the largest manager in a number of different categories, and then referred to a chart reflecting the range of products offered to the clients. Ms. Raynes reported SSGA has offices all around the world, stating this gives the firm a very good ground level local exposure experience inside to the global markets. She added this is a very important differentiator in terms of their ability to provide creative solutions efficiently managed around the globe.

Ms. Raynes commented she understood the Department has an interest in partnering with emerging managers and expressed SSGA would be delighted to assist in this partnership in a way that is appropriate. President Romero clarified the Department has not expressed interest in partnering with emerging managers and the policy being generated is inclusion, not a partnership.

Ms. Tisdale summarized SSGA's competitive advantages, listing the firm's strengths as: a strong investment team, strong team structure, good solid investment process, significant resources and consistent excess performance. She described the SSGA's investment philosophy, stating the firm focuses on the fundamental financial principles that drive prices and look for companies that are cheap, relative to their industry peers, generating and throwing off a lot of cash flow, managing their balance sheets effectively and with high quality earnings. She stated, by combing companies with those characteristics, and the fact SSGA focuses on the large cap value mandate, their firm has been able to deliver strong consistent excess returns relative to the Russell 1000 value index.

Ms. Tisdale elaborated on SSGA's investment process, stating it was based on three primary components: the universe definition, security analysis and portfolio construction. Mr. Vazquez inquired if SSGA had a process by which if a company were to meet some target value it would be sold. Ms. Tisdale responded the firm does not have target return expectations within their process and it was all a relative value ranking approach.

Mr. Vazquez noted the representatives talked about their ranking process and asked for additional details. Ms. Tisdale responded the firm looks at what the analysts on Wall Street are saying about the companies in SSGA's universe. She stated the firm is not looking to see how accurate they are on their earning expectations but how they are changing their expectations relative to the consensus. Mr. Vazquez inquired about the number of stocks in SGGA's portfolio. Ms. Tisdale reported in the high 90s. Mr. Vazquez inquired if the firm did direct research. Ms. Tisdale responded SSGA does not have fundamental analysts within the U.S. active quantitative group, but relies on the information from Wall Street analysts. She stated, in addition, SSGA has a fundamental research group they can call upon should a need arise for tie breaking information.

Ms. Tisdale then reviewed their portfolio as of the end of March, pointing out the characteristics of the portfolio reflect their investment philosophy. She indicated, at all times, SSGA will have a lower than benchmark price to earnings, consequently the portfolio is a little cheaper than that of the benchmark, but they have a higher earnings growth rate than the benchmark. Ms. Tisdale stated the firm adds value through stock selection, not by industry or sector timing, reporting the firm has had consistent returns, adding value in 5 out of the last 7 calendar years.

Ms. Raynes indicated, if the Board selects SSGA, she would be responsible for client services and most interaction with the firm. She added SSGA has online capabilities the Board can access to review their portfolio on a one day lag basis in order to see cash flow, manipulate performance data, etc.

President Romero noted, in the pamphlet SSGA provided to the Board, 100-300 stocks are listed, but in the presentation it was reported the firm has only 80-100 stocks. Ms. Tisdale clarified the firm brought down the number of securities more recently after looking at their performance record and stock ranking ability and determined it would be better to have fewer positions in the portfolio. She added many of their clients have been requesting this change.

President Romero inquired about SSGA's historical turnover. Ms. Tisdale responded the firm's turnover has been 75% to 95%, but with the reduced number of positions, it would put them on the lower end. President Romero inquired if the fees were negotiable. Ms. Jacobsen responded in the affirmative.

Mr. Vazquez inquired, regarding the turnover, did SSGA hold their average stock for just over a year. Ms. Tisdale responded in the affirmative, stating there would be a core group of holdings due to the risk controls in the portfolio. She added the larger position in the benchmark will be held consistently over the years, but there would be another group of names, which will turn over more rapidly.

President Romero requested a brief summary of SSGA's inclusion policy. Ms. Jacobsen explained SSGA's inclusion policy consisted of two components. She reported the firm has a minority and women vendor program that has been in existence since the late 1980s, adding last year, $30 million was channeled to qualifying minority and women owned companies. Ms. Jacobsen indicated the second component was SSGA's effort to work with minority brokerage funds in terms of a commission relationship of an estimated $4.5 million last year. President Romero inquired if this was strictly through a "step out" program. Ms. Jacobsen responded in the affirmative, adding the brokers the firm works with must also meet certain requirements.

Mr. Vazquez noted the SSGA representatives indicated they would be willing to work with a woman or minority owned firm, (in terms of partnering on investment management) if the Board requested this. He then inquired if their firm had done this for other clients. Ms. Jacobsen responded SSGA has partnered with many managers in the past through the Office of the Fiduciary Advisor (OFA), a group within SSGA that provides oversight to pension Plans.

President Romero inquired about the indication of possible layoffs at SSGA. Ms. Jacobsen responded, as part of an expense reduction program, which many managers have been going through due to the downturn in the equity market, the corporation announced a goal to reduce expenses by 10%. She stated the first effort, in this regard, was a voluntary separation program, wherein packages were offered to all employees encouraging them to leave for better opportunities or retirement. Ms. Jacobsen explained the full extent of how many employees taking part of the voluntary separation program is not yet known, because it will be an ongoing process until the end of June. She stated clients and prospects would be notified of any organizational changes by July 1st. President Romero inquired if the firm was aware of any key personnel changes. Ms. Jacobsen responded, at this point, it was unclear.

After more discussion Ms. Jacobsen, Ms. Tisdale and Ms. Raynes were excused and left.

Ms. Gilday and Mr. Barkley of Barrow, Hanley, Mewhinney & Strauss, Inc., approached the table.

g) Barrow, Hanley, Mewhinney & Strauss, Inc.

President Romero recognized Ms. Gilday and Mr. Barkley.

Mr. Barkley introduced himself as a partner at Barrow Hanley, in charge of client development and service activities. He then introduced Ms. Gilday as a senior member of the investment team, adding she was one of the most experienced women in the industry with 35 years of experience and one of the first female securities analysts on Wall Street.

Mr. Barkley began by summarizing what Barrow Hanley believes DWP's reasons are for going through this process and their goals for a value manager. He presented a brief overview of Barrow Hanley, reporting the firm manages $20 billion in large cap value portfolios (17 of those being $200 million or greater) and 8 utility clients, totaling $1 billion of their assets.

Ms. Gilday defined Barrow Hanley's portfolio philosophy, indicating it consisted of three factors: a low price to earnings ratio, a low price to book ratio, plus a higher dividend yield relative to the value indices. She also pointed out Barrow Hanley's price earning was very low at 11.9%, considering most growth managers have price earnings in the high 20s and the firm's low price earning was a very effective counterpoint to their 3.6% dividend yield (70% higher than the S & P 500 and 30% higher than the Russell 1000 value).

Ms. Gilday reported Barrow Hanley typically holds a stock for 3 to 4 years, which is generally how long it takes for a stock to go from severely undervalued to fully valued. She then explained how dividends represent nearly half of the total returns from stocks.

Mr. Barkley expressed one of the goals Barrow Hanley stresses, is the characteristics of the value manager should complement the growth manager. He referred to a style chart wherein the firm analyzed the returns for INTECH and Fred Alger (DWP's recently selected growth managers) and various indices, indicating Barrow Hanley was a strategic complement and a mirror image offset to the Department's growth managers and would achieve an effective diversification.

Mr. Barkley discussed generating returns going forward and highlighted Barrow Hanley's long track record with substantial assets under management. He concluded by listing the firm's goals, stating they have a consistent definition of value, which effectively offsets and implements DWP's asset allocation. He noted their process does not change, they possess substantial experience managing large portfolios and bring a superior strategy for generating returns going forward (based on capital appreciation and returns coming from dividends).

President Romero inquired if Barrow Hanley had a turnover between 25% and 30%. Ms. Gilday responded in the affirmative. President Romero inquired if their fees were negotiable. Mr. Barkley responded Barrow Hanley has one fee schedule which all of their clients are on. He added this was put in writing and no client has a lower fee schedule, therefore, the fees are non-negotiable.

President Romero inquired about Barrow Hanley's inclusion policy. Mr. Barkley responded the firm has worked hard to recruit a diverse staff, but they are not perfect. He pointed out the firm is based in Dallas, consequently it is a different market than the West and East coast. President Romero inquired if the firm uses minority brokers. Mr. Barkley reported the firm has six minority brokers and commissions in excess of $20,000 a year are allocated to them. President Romero inquired if these brokers were used directly or as a "step out" program. Mr. Barkley responded the firm does both, but the majority of what they do is "step out".

Mr. Vazquez inquired if Barrow Hanley has a set target of when to eliminate a stock. Ms. Gilday responded the firm does have targets that can move with the markets. She stated the firm has a self-enforcing discipline and various stocks must be sold in order to make room for the next great idea. Ms. Gilday added when a stock has gone beyond the firm's parameters, in terms of relative price and book value, it must be sold. Mr. Vazquez inquired what was the longest held security. Ms. Gilday responded Citigroup. Mr. Vazquez inquired how long Citigroup has been held. Ms. Gilday responded 24 years. Mr. Vazquez inquired if this holding had been a valued stock for 24 years. Ms. Gilday responded the firm has traded around the position.

Mr. Vazquez inquired what Barrow and Hanley's sell critera was when a stock does not meet the firm's expectations. Ms. Gilday responded if a stock has had a really good move and has met the firm's expectations they will sell it. She gave an example of a sell of a stock which had a good dividend yield and was a stable company, but the company made a decision to sell off several of its poor performing businesses and at the same time slashed the dividend to free up cash. She expressed Barrow Hanley was unhappy with this decision and sold the stock.

After more discussion Mr. Barkley and Ms. Gilday were excused and left.

The meeting adjourned for lunch at 1:35 p.m.

The meeting reconvened at 2:00 p.m.

Mr. Vellon was now in attendance.

Messrs. Nutt, Irving, Silver and McKenzie (all of Merrill Lynch Investment Managers) approached the table.

h) Merrill Lynch Investment Managers

President Romero recognized Messrs. Nutt, Irving, Silver and McKenzie.

Mr. Silver introduced himself and the other representatives, and gave a brief background of each. He indicated, since their initial proposal they have had some revisions and have restructured their overall pricing strategy from 38.1 to 33.5 basis points.

Mr. Silver compared Merrill Lynch's performance to the Frank Russell Index, Russell 1000 and S&P 500, and reported the firm has consistently outperformed these indexes over the one, three, five and ten year periods. He provided a brief overview of Merrill Lynch, stating it was comprised of three primary businesses: 1) Investment Banking, 2) Private Client and 3) Asset Management under Merrill Lynch Investment Managers. He stated the firm was one of the world's leading financial advisory and management companies and have a solid history of inclusion and commitment to community development.

Mr. Silver indicated, in regards to Merrill's inclusion policy, their firm has spent over $1.7 billion since 1987 in support of women and minority owned businesses through their Supplier Diversity Program. He added, the firm is prepared to continue to help DWP in developing and implementing their inclusion program. Mr. Silver reported Merrill's CEO (Stan O'Neal) recently announced an additional $500 million commitment to the California Partnership for Economic Development, which began in 1996, supporting Asian, Latino and African-American enterprises throughout the state of California.

Mr. Nutt outlined Merrill's philosophy, stating in everything the firm does, they attempt to determine the company's intrinsic value (earnings, prospect and asset value) and current market price. He then compared Merrill's performance against the benchmark, reporting they achieved higher returns with lower volatility.

Mr. Irving described how, through teamwork, three principal steps are taken to "unlock" value opportunities: 1) fundamental security research, 2) macro economic overlay and 3) equity qualifying disciplines (based on a point system). He also stated when it comes time to make team decisions as far as buying, selling, trim or change in sectors it is a consensus vote.

Mr. Nutt elaborated on Merrill's disciplines, stating there were three issues the firm feels are important with respect to their process: independent thinking, evaluation, and research.

Mr. Irving explained how their eleven-factor valuation screen works as a filtering process going from a wide universe of companies down to the final 33 stock portfolios. He then described the diversification requirements, expressing the firm recognizes a 33 stock portfolio is a little more concentrated than that of their peer group, but the firm feels applying a sector discipline with the representation of all 10 sectors of the S &P 500 helps to limit some of the downside risk and potential bad overweight decisions made.

Mr. Nutt outlined Merrill's sell disciplines as relative valuations, changes in fundamentals, diversification and changes in sector allocations. He then discussed the separation of investment management and risk management and how it impacts the sell discipline. He indicated Merrill has a separate unit of 60 professionals who specialize in risk management and monitor the portfolios from every possible angle.

Mr. Irving commented, often, when a stock goes down in price but Merrill still has great conviction about the stock, it still meets their buyer criteria and the thesis is still intact, the firm will add to the position. He stated Merrill tends to buy in 3% positions and if a stock reaches 5% of the portfolio they will trim it back and reallocate the proceeds to some of the problem stocks

Mr. Nutt reviewed the characteristics of Merrill's portfolio, pointing out it has a much lower price to book value, much lower price earnings ratio, a higher dividend yield than the benchmark, and a somewhat smaller weighted average market cap. He also stated their 10 largest holdings would never violate the 40% rule because Merrill takes the 3% position and has fairly low turnover.

President Romero inquired about the number of stocks Merrill has in their portfolio. Mr. Nutt clarified there were between 30 and 40 stocks in their portfolio. President Romero then inquired about the firm's turnover. Mr. Nutt responded their turnover was about 30% to 40% and last year came under 20%.

President Romero noted the fees were previously 37 basis points and were brought down to 33.5 basis points. Mr. Silver commented it was important to note Merrill reviewed their overall pricing structure for DWP's particular strategy and based on the mandate it equates to 33.5 basis points. President Romero inquired if the 33.5 was negotiable. Mr. Silver responded in the affirmative.

President Romero requested the Merrill Lynch representatives elaborate on their inclusion policy. Mr. McKenzie responded Merrill clears for 16 minority and women owned broker dealer organizations and is actively engaged in including them in brokerage commission transactions. President Romero inquired if this was strictly on a “step out” basis. Mr. McKenzie responded “step out” was sometimes not something those firms can grow on.

Mr. Rue inquired if Mr. McKenzie was referring to Broad Corp. and indicated the Board needs this distinction. Mr. McKenzie clarified Merrill Broad Corp. was where the clearing arrangements are made. Mr. Rue further clarified for the Board that Merrill Broad Corp. was a brokerage house, which is actually where all the trades get run through for the minority brokers and not the investment manager side. Mr. McKenzie expressed Merrill Lynch does have longstanding relationships with those brokers.

Mr. McKenzie continued describing Merrill’s inclusion policy, stating the firm actively participates in the National Association Securities Professionals, which is a support group founded in 1985 to support inclusion on the part of women and minority owned businesses. He added the firm recruits from their relationships with them in order to fill up their training programs within the organization.

Mr. Vazquez inquired, based on Merrill’s turnover, was their average holding period about three years or less. Mr. Irving responded the firm’s holding period was two to three years and it was generally not only a fall-out of the way the stocks have worked out, but also something the firm tends to focus on. Mr. Vazquez inquired what Merrill’s longest held stock was. Mr. Irving responded their longest held stock was Exxon Mobil, which continues to do quite well. Mr. Vazquez inquired what guidelines did Merrill have in terms of selling a stock if it is not doing well. Mr. Nutt responded the firm looks at the condition of the company and balance sheet, all the fundamentals and if there is not a huge problem with any of this and the original rationale for their purchase is still valid, Merrill will add to those shares and wait it out.

Mr. Vazquez inquired, in terms of Merrill’s screening process, what role does dividend yield play. Mr. Irving responded dividend yield was one of the components out of 11, but it is not an overriding factor.

Ms. Calvache inquired if Merrill Lynch goes out to different colleges and universities in order to recruit. Mr. McKenzie indicated he was part of the recruiting team and the diversity counsel for Merrill and recruitment from colleges was one of the three-pronged efforts the firm has regarding diversification. Mr. Nutt added they have been privileged to be the managers on the Merrill Lynch Foundation of which a portion is set aside for the Merrill Lynch Scholarship Builder, a program that tracks underprivileged inner-city children through their education and fully funds their college education.

Mr. Vellon noted Merrill has been involved with Large Value Domestic Equity for a long time and characterized the portfolio as highly concentrated. He inquired, with such a high concentration, what would be the firm’s reaction to a bad bet. Mr. Nutt responded a highly concentrated portfolio has been one of the secrets to Merrill’s success. He stated the firm avoids detrimental bets by performing a rigorous and thorough fundamental analysis for a single security. Mr. Nutt indicated the firm does have stocks that do go down after purchase and they do make mistakes but do not have really severe problems in their portfolio in any significant number because of the exhaustive research performed. Mr. Irving added, another reason Merrill is able to avoid severe problems is because there is a philosophical difference in the construction of their portfolio. Mr. McKenzie commented Merrill's risk adjusted returns reflect the fact they are not taking big quantitative bets as to the risk in the particular holdings.

Mr. Vellon inquired, given that Merrill Lynch is such a visible player in terms of the broker industry, how would they be used or not used as a broker. Mr. Nutt responded this was completely the decision of the client, because the trading is handled the way the client requests. He stated, unless given certain directives by the client, the firm would trade very freely with any broker as a matter of best execution. Mr. Vellon inquired if this included Merrill Lynch as a broker. Mr. Nutt responded this included Merrill Lynch if they could give the best bid or offer on a given trade. Mr. Vellon inquired if the firm typically does this with clients who do not give them any restrictions because of the appearance of conflict. Mr. McKenzie responded whether or not a client believes there is a conflict of interest, the firm likes to think it is to the client's advantage. He reported every sixth trade on the New York Stock Exchange is a Merrill Lynch trade and are one, two or three in every trade market in the world. Mr. McKenzie expressed the firm would be willing to exclude themselves, but they think this represents a price disadvantage to the client rather than an advantage. He indicated there were accounts in which they do not, under any circumstances, trade with Merrill Lynch, which is driven by the contract signed with the trustee.

After more discussion Messrs. Nutt, Irving, Silver and McKenzie were excused and left.

President Romero called for a brief recess at 2:48 p.m.

The meeting reconvened at 3:05 p.m.

Mr. Rue explained a chart he handed out at the meeting depicting a correlation matrix of the active returns among the managers interviewed, in order to assist the Board members in selecting two managers that complement each other rather than two identical firms. Mr. Vellon inquired if Mr. Rue was suggesting the Board focus on selecting two firms and then look at the chart to see if the two firms correlate. Mr. Rue responded in the affirmative.

President Romero suggested the Board members state their views on each firm and then go from there. He then expressed his first and second choice firms were MFS and Merrill Lynch. President Romero stated he favored MFS because their portfolio contained the least risk with one of the highest returns at 3.1% (annualized risk/return) and Merrill's 3.7%. He added MFS had the lowest standard deviation at 14.7, there is more diversification in the actual number of stocks between Merrill Lynch (30-50 stocks) and MFS (90-100 stocks) and he felt such a diversified portfolio adds value to the overall Plan. He stated the tracking error for MFS was the lowest at 300 and both firms had a good inclusion policy. President Romero also noted MFS was listed in the top 100 companies by Fortune Magazine four times running.

Mr. Vazquez stated he ruled out State Street, Wellington and Barrow for various reasons, but was more impressed by Bear Stearns, T. Rowe Price and Merrill Lynch. He expressed he did not have any negative opinions regarding MFS, but based on his perception of the presentation, he felt the other firms were better but would have no problems choosing MFS based on their performance.

Mr. Wiggs stated he agreed with President Romero's opinions, indicating he is basing his opinion on the firm's performance for the past five years and the same team is intact who was responsible for the performance. He stated he is focused on Merrill Lynch and MFS even though he was not in attendance when MFS gave their presentation. Mr. Wiggs noted the two firm's fees were low and negotiable and complemented each other according to the chart provided by PCA.

President Romero commented it has been the worst market there has been in a long time and Merrill Lynch and MFS still performed well. Ms. Calvache indicated she paid close attention to MFS's presentation since PCA rated them the lowest, but by the end of the presentation she preferred them versus the other firms. She stated her second choice was T. Rowe Price, but after listening to Merrill Lynch's presentation and hearing their inclusion policy she feels more comfortable with Merrill.

Ms. Bertrand expressed she agreed with President Romero's suggestion of the firms MFS and Merrill Lynch and his reason for choosing them. She also noted, according to the chart provided by PCA, the two firms were very complementary.

Mr. Vellon commented Merrill Lynch was aggressively working on lowering their fees, and MFS had already lowered their fees but there may still be a possibility of negotiating the fees a little lower.

Mr. Wiggs moved the Board's selection of MFS Institutional Advisors and Merrill Lynch Investment Managers for the Large Value Domestic Equity fund subject to contract negotiations. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

The meeting was adjourned at 3:25 p.m.

JAVIER ROMERO President	DUAMEL VELLON Secretary

SILVIA TESSENEER
Recording Secretary