INVESTMENT COMMITTEE MEETING
BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN

MINUTES - September 30, 2003

Present:

Javier Romero	President
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member

Others Present:

Duamel Vellon	Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Mr. Mike Wilkinson	City Attorney
Mr. Barr Segal	TCW
Mr. James Tilton	TCW
Ms. Delia Roges	TCW
Mr. Rob Harkins	The Boston Company
Mr. Peter Lopez	The Boston Company
Mr. Dan Richter	Standish Mellon
Mr. Neil Rue	PCA

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

[Pledge of Allegiance]

Mr. Vellon stated, for the record, this Investment Committee meeting was posted as both a regular meeting and an investment meeting, consistent with past practices. He noted, prior to the start of the meeting, he consulted with Attorney Wilkinson who indicated clarification was needed in terms of the composition of the investment committee.

President Romero clarified, his last comments on the matter entailed maintaining the Investment Committee as it stood. He added, if one of the Investment Committee members was not available, all other Board members could be an alternate and attend in lieu of the absent committee member. President Romero explained while the Board has been making significant investment transitions, it was his preference to have a Committee of the whole, so everyone would participate and be active in making these important decisions. He stated, if Board members are not able to attend the meeting, then it would be brought down to the level of an Investment Committee meeting and absences should be filled by alternate members.

Attorney Wilkinson requested for the record, the names of the Investment Committee members be clearly recorded. President Romero indicated the members of the Investment Committee were: Ron Vazquez, Dan Mirisola, and Javier Romero.

PUBLIC COMMENTS

Chairman Romero called for public comments and there were none.

1. Pension Consulting Alliance (PCA) – Investment Performance Evaluation for the periods ending March 31, 2003 and June 30, 2003.

Mr. Neil Rue of Pension Consulting Alliance (PCA) approached the table.

Mr. Rue stated as of March 31, 2003, LADWP portfolio was valued at $5.2 billion and, due to the difficult markets over the last year, the portfolio has declined a little more than $900 million. He added, based on the reports, 2/3 of such decline was due to investment results and the rest due to benefit payments. Mr. Rue indicated, as of the date of this report, the Plan had retained, but not yet funded, four external managers, Merrill Lynch Investment Management, Northern Trust Global Investments, Fred Alger Management and INTECH. He explained the Plan has allocations through a variety of asset classes that go beyond current existing assets, pursuant to the policy adopted by the Board.

Mr. Vazquez requested the summary numbers for the retirement portfolio should be separate from the death and disability funds. He stated he could not find a pure retirement portfolio value. Mr. Rue responded this would be done in the future, adding the numbers are in the report, though not summarized.

Mr. Rue indicated the Plan's portfolio was down approximately 1.9% for the quarter ending March 31, 2003. He explained a market-based proxy return is a 60/40 mix, representing some notion of the investment policy, giving the Board a sense of how other markets are doing and how LADWP's portfolio is doing relative to the overall markets, but is not the Plan's officially adopted policy. Mr. Rue stated the Plan underperformed a 60/40 benchmark by about 50 basis points for the quarter. He noted, beginning with the second quarter report, performance results of the Plan's new policy will begin to flow through the report going forward. Mr. Vazquez inquired if this driven by the Plan's cash position versus PCA's proxy benchmark and if so, how is the cash reflected in the numbers presented in the report. Mr. Rue stated the actual portfolio return included $1 billion worth of cash, compared to the average cash balance for the quarter, and the market-based proxy would have assumed a lower level of about 10% cash.

Mr. Vellon inquired, if the fact the Plan had so much cash, and only cash assets generated positive returns, would this cash help performance and the 1.9% return included the benefits of cash performance. Mr. Rue responded in the affirmative and stated the detrimental underperformance essentially occurred within the domestic equities portfolio, where the Plan underperformed by over 100 basis points for the quarter.

Mr. Rue reported, for the year, the Plan's portfolio was down 11.8% versus the 60/40 mix down 12.2%, primarily due to the fact the Plan had a more conservative asset allocation for the year than the 60/40 mix, at about 55/45, which helped out the Plan significantly. He added, over the year, the Plan's portfolio, versus other large pension funds, finished fairly close to median. Mr. Rue noted during the last 3 and 5 year of incredibly difficult volatile markets, the way the Plan's portfolio is structured, the longer term results proved to be very satisfactory, putting the Plan in the top percentile for the three-year period and well above median for the five-year number. Mr. Rue explained the market dynamics in the first quarter, not knowing if the U.S. was going to be in a World War or not, from December 2002 through February 2003, the equity markets were down 10% in just those three months, on top of all the negative returns it had in the prior three years, giving it a very poor performing period just prior to the Iraq War. He noted from March 2003 and forward, the markets have done quite well. Mr. Rue added, the uncertainty exhibited in terms of significant negative returns across all the equity markets are some of the worse one-year numbers seen in the modern history of the equity markets, and, on average, the equity markets were down about 25% per year.

Mr. Vazquez inquired what SBWGB means. Mr. Rue explained, it means Solomon Brothers World Government Bond Index. He added SBWGB surged, primarily, because the dollar (prior to the war) depreciated quite a bit and, therefore, very strong results were seen in the later half of 2002 and into the beginning of the first quarter of 2003. Mr. Rue reiterated the returns are some of the worst three-year returns on record exhibited by the equity market. He added, through this tumultuous period, the Plan's portfolio has been able to maintain and protect its principal effectively, being down only .6 per year, basically flat, during a period when the equity markets were producing the worst results on record. Mr. Rue explained during the later part of the first quarter, value managers produced highly favorable results, but in the first quarter (March) and all through the second quarter, growth stocks have shown a recovery, outperforming value stocks, and this shows up in the Plan manager's results which tend to reflect a value oriented tilt.

Mr. Moore inquired if standard deviation is always calculated the same way in the assessment of risk over a three and five year period. Mr. Rue explained, if it's a three-year chart, 12-quarter returns annualized would be used and 20-quarter returns over five years. He added one should not look at standard deviation results less than three years because it's a long-term measure, and one needs to get data to get a reasonable notion of risk. Mr. Vazquez stated he did not understand what the chart on page 4 and 5 of PCA's second quarter report meant. Mr. Rue noted the actual values are typographical errors on page 4, and, page 5 has no data, but these would carry forward and change as the new policy gets introduced.

Mr. Vazquez and Mr. Moore requested clarification of the charts and verbiage in PCA's report. Mr. Rue explained, as the Board makes decisions, with respect to expected returns and the Plan's policy, the flow will be charted and two years from now, if the Board does another asset liability or comes up with a new policy, the Board will be able to see and compare the old policy with the new one, and over time, the Board can see the trend of the policy decisions made. He added, at this point, since the policy is brand new, it doesn't carry a lot of meaning. Mr. Rue stated, since the Plan does not have any new managers, and the benchmarks at this point have not been formally adopted, PCA is just plugging in some benchmarks, but, going forward, the Board will begin to see all this evolve as the assigned benchmarks and passive managers take place, the chart will flow through.

Mr. Rue stated the portfolio grew by approximately $450 million in the second quarter ending June 30, 2003, giving the Plan incredible results and a large payback for the quarter. He added over the year, the portfolio added value on an investment basis, yet had a slight loss of about $7 million due to payment of benefits. Mr. Rue reiterated the Plan's search activity for managers is in progress and as of June 30, 2003 no new managers had been funded, therefore they do not show up on the report. He added Merrill Lynch and Northern Trust will be added in the third quarter report as they begin their funding, although they won't have any performance to show as they will not have had a full quarters worth of performance, so their first full quarter performance will be reflected in the fourth quarter report.

Mr. Rue noted the portfolio was valued at a total of about $5.6 billion as of June 30, 2003, which is a significant increase over the first quarter. Mr. Moore inquired how the cash position is accounted for, because the Plan is accumulating cash. He added the Plan is not establishing new positions in the portfolio and inquired if the Plan has sales, are those sales being transferred to a cash account and if the managers are allowed to make purchases. Mr. Vellon explained all the managers have full discretion within the boundaries of the Plan's investment historical guidelines and turnover experience. He noted, in regards to certain accounts which were eliminated (such as Highmark, who used to manage equity for the Plan) their securities were transferred, under the existing managers custody, with the understanding, as they would sell some of those positions, the managers would have to transfer the cash into the Plan's cash account. He commented, the reason for holding cash is not necessarily by design, it has been a by-product of waiting for the implementation of the asset allocation and at some point the Board decided to use the Plan cash balances to fund the International Investment Managers. Mr. Moore stated he doesn't understand were the large sum of cash came from initially, was it at some point in time the Plan had a large cash balance. Mr. Vellon responded affirmatively, adding it started high about two years ago with the new Board as they were deciding were to go, therefore, the cash is the result of the wait and see kind of decision as well as continuing contributions. He reported the cash is also reflective of securities sold by the managers who assumed the account previously managed by Highmark. Mr. Vellon explained these managers had discretion to sell, yet no authority to buy from that particular account, unless they came to the Board first. He added, for clarification purposes, the managers could sell and buy from their established accounts, which they manage and supervise.

Mr. Moore inquired when discretion was given to the managers. Mr. Vellon stated July 1, 2002. Mr. Vazquez explained prior to July 1, 2002, the Board had an Investment Committee who evaluated managers recommendations and either accepted or rejected these. He added, at times the Committee had different views as to what target returns should be, and did not accept a lot of recommendations, believing it would have yielded lower returns than the portfolio should have had, long term, therefore, this also added to the build up of the cash, prior to the full discretion mandate.

Mr. Rue explained the new policy does not have the 60/40 mix and so now the challenge will be managing the portfolio versus the approved policy. He added, there are some deviations in the actual portfolio that will hopefully change over time, and with the retention of the international equity managers, there will be a big shift of the cash position, once the contracts get resolved, with the exception of approximately 5% of cash in reserve. Mr. Rue stated the remaining will be the asset classes alternative investments and real estate, which are challenging asset classes, in and of themselves to fund and develop policy on. He noted the goal should be to have a tilt towards similar public asset classes, and in doing so, the Plan should also have a little tilt towards the equity asset classes to offset the underweightings in alternatives. He added the Plan should also have a modest tilt on fixed income, to offset some of the real estate exposure, because real estate is sort of a hybrid between equity and fixed income. Mr. Rue suggested modest overweight in fixed income and more overweight of domestic equity, while the Plan is waiting to fund and consider policy direction for alternatives and real estate.

Mr. Rue discussed the second quarter Plan performance, stating the portfolio was up a very strong 9.6%, nearly a double digit return in one quarter, however the policy portfolio produced a return of 11.5% and this is due to the significant rebound in equity markets and the Plan's cash balance. Mr. Rue indicated another thing contributing to the policy return is the alternative investment benchmark producing a 17% return. He explained one needs benchmarks for these things, and for the Plan's alternative investments, there is a Russell 3000 + (plus 300 basis points) benchmark and this should be considered a long term benchmark and what can happen is, given the volatility of equity markets, this benchmark can fluctuate all over the place, so one needs to take these policy returns with a little bit of a grain of salt, especially when looking at these long term benchmarks on a quarterly basis.

Mr. Vazquez stated he did not understand what the explanation of "policy return" is and why we are comparing with that. Mr. Rue explained policy return is one's portfolio invested proportionally per the Board's policy (per the targets) compared to the portfolio being invested in passive vehicles (provided they can find them) in line with the Board's allocation policy. He explained an example, 40 % of the portfolio representing domestic equity is assumed to be invested in the Russell 3000, because that is the Plan's policy benchmark, however, one could go out and buy index fund of the Russell 3000 for very cheap and get that exposure immediately, one could do this with all the passive portfolios, domestic equity, domestic fixed and international equities for virtually no cost. He added the Board has not formally adopted a performance policy benchmark for alternatives.

Mr. Rue stated, once one invests in alternatives, there are two benchmarks, for Real Estate, the widely followed benchmark is known as the NCREIF index. He explained NCREIF index is an organization, which tracks the valuation of hundreds of commercial properties all around the country as well as all major property sectors (apartments, industrial). Mr. Rue stated NCREIF has actually lagged a quarter, so this will be the first quarter return for NCREIF. He added the goal for the alternative benchmark is investing in private investments, and in the public markets, people pay for liquidity, moving fairly rapidly in and out of stock and bonds and, because liquidity is available, there is a premium in terms of the price one pays for those investments. Mr. Rue explained in alternative investments, one should be able to achieve the public market, plus 300 basis point per year return over a long time frame. He added the challenge in alternative markets is the assets, like they are in real estate, are often appraised and not based on continuous market values, so the benchmark used to measure can be quite volatile and move all over the place, versus a portfolio one might have.

Mr. Moore inquired, in terms of the benchmark, to what extent can it be adjusted for actual sales that take place over time. Mr. Rue stated the industry convention does not really take into account appraised value assets. He noted complex benchmarks take into account funding of opportunities but don't necessarily take into account the appraised value of the underlining assets, deferring to a public equity value.
Mr. Moore inquired what was the real estate benchmark based on. Mr. Rue stated it is based on appraised values. Mr. Moore inquired if PCA was aware of there being an adjustment to reflect bias', which might take place in appraisals. Mr. Rue stated no pension fund he was aware of tried to use this, but it doesn't mean it doesn't exist. He added there are no clients of PCA who have used an adjusted mechanism for the policy benchmark.

Mr. Vellon stated going back to the original question regarding the "policy return", was it fair to say, policy return means, if the Plan had purchased an index with the Plan weightings in the different types of securities and asset classes at no management fee, the Plan would have made 11.5%, but with the set up and managers the Plan has now, only 9.6% was made. Mr. Rue responded affirmatively. Mr. Vellon stated for the record, in terms of the "policy benchmark", while the Board is in the process of implementation, technically the "policy benchmark" return should not be used in a reasonable way because the Board members haven't finished the implementation.

Mr. Moore stated the Russell 3000 was used for the domestic equities and, since all domestic equities are caught up in this, would it be appropriate or useful if the Plan weighted the calculation of a number, not necessarily based on the Russell 3000, weighted the large capital versus the Russell 1000, and the small cap based on the Russell 2000, so the Plan would more closely relate to the percentage allocations agreed too. Mr. Rue stated the Board adopted a policy for the benchmark, which reflects the structure of the Russell 3000 capitalization. He explained when one puts the Russell 1000 and Russell 2000 together one gets the Russell 3000 and the apportion is based on capitalization size. Mr. Rue added the Plan is not there yet, but will be soon. Mr. Moore inquired about domestic fixed income, if PCA was using the Lehman Universal. Mr. Rue responded just for this quarter and will roll forward, adding the structure of the Plan's domestic fixed income policy is roughly equivalent to the structure of the Lehman Universal.

Mr. Moore stated there is nothing addressing the benchmark for the international equities index in the report. He inquired if it was the EAFE. Mr. Rue explained it was not the EAFE, but was ACWI (All Country World Index), which is a combination of EAFE and emerging markets. He added the Plan has just funded its EAFE portion at about 90% and will be funding about 10% more in international and all emerging markets. Mr. Rue stated the Plan had good strong absolute results versus a 60/40 mix, being fairly close to were a 60/40 mix was, but the Board won't be seeing these numbers going forward.

Mr. Rue stated, for the year ending June 30, 2003, the Plan's portfolio produced a return of 2.3% versus a 60/40 mix, which produced a 4.0% return for the year, wherein the Plan underperformed by 1.7%. He noted it came from the domestic equity portion where the equity portfolio produced a –2.7% versus essentially flat for the year, largely due to the value tilt loosing a little bit of favor. Mr. Moore inquired if the Plan's percentile ranking would include the lack of performance in terms of small stocks. Mr. Rue stated small growth really took off, so some plan sponsors have exposure to small growth and some don't but those that did really did a lot better. Mr. Rue explained the three and five year numbers are pretty much the inverse of what's happening over the last year, because of the way the managers had added value as well as the significant tilt they've had towards value across all the portfolios.

Mr. Vellon stated for the three-year return, PCA shows 2.1% down, and inquired if in this particular time period, the Plan beat the market-based proxy by a significant amount. Mr. Rue responded affirmatively. Mr. Rue explained the risk versus return chart, using 12 quarters of results on the three-year chart and 20 quarter of results in the five-year chart. He stated the Plan's portfolio has produced a standard deviation of between 11-12% regardless of the time frame. Mr. Rue noted the risk tends to be more stable than the return over time. Mr. Moore stated he needed clarification, noting the standard deviation looks something in the order of 22%. He inquired if this is saying there is a band on the S&P 500 which is11% down/11% up for a total of 22%, basically plus or minus 11%. Mr. Rue responded it's plus 22% on either side for one standard deviation for the equity markets. He added, what these risk numbers say, is, going forward, try to take this information and project it into the future and because risk is stable, one can be fairly confident these asset classes and this portfolio, without any major changes to the structures of the portfolio, the risk will be about what the charts say it is. Mr. Rue explained with the S&P 500, say there is an expected return of about 10% and the risk looks stable regardless of three or five year number and its at 22%, this means 10% plus or minus 22 in any one year. Mr. Moore inquired if the variability of plus or minus 22% explains 66% of the likely typical behavior. Mr. Rue responded affirmatively. He added once the policy gets to have three years of history, the policy portfolio will end up showing on the chart discussed. He stated one should not invest the entire portfolio in equity, because it has significant risk, significant potential to have negative down-side returns, but the Plan's portfolio has half the risk of the equity markets and bonds have about 25% of the risk of equities and this has been stable over these cycles.

Mr. Rue explained the Plan's 10 year chart shows the portfolio, since 1993, still has a buffer versus the 8% return, so the portfolio is meeting it's long term objective of 8%. He noted both the major asset classes, despite the volatility over a very long-term time frame, have met their objectives.

Mr. Rue indicated the economy increased at an annual growth rate of 3.3%, showing a significant growth in economy and this is beginning to play out in the numbers. He added inflation has been very low and the big concern is reflected in the unemployment number, if this is a jobless recovery or not, because even though there has been this great economic growth, the unemployment rate has continued to increase. Mr. Rue explained as the war started to come to an end and people were willing to get back to business, all the confidence translated into pretty substantial returns across all the markets. Mr. Vellon added the Plan's high exposure to cash did not help for the quarter. Mr. Rue explained, over the trailing 12 months, there was a little bit of a different pattern, the equity markets are pretty much overall flat with the exception of developed international markets as measured by EAFE, and emerging markets are beginning to show momentum being the strongest performing equity asset class. He added with the events of the war over the latest year, the dollar depreciated to some degree and this translated into significant returns for the Solomon Brothers World Government Bond Index.

Mr. Rue stated over the last three years the negative numbers are beginning to get a little bit smaller, however, they are still negative and there still is a trend over the last several quarters. He added, although international markets have not performed well, versus domestic equity markets, this trend is beginning to change, and emerging markets are performing better than the S&P, Russell 3000 and better than EAFE and this is a three-year track record. Mr. Rue noted EAFE is not very disappointing, versus certain segments of the domestic equity markets on a three-year look back. He stated for the five-year number, emerging markets produced the highest equity return and there is substantial fixed income returns or stable asset returns, they are beginning to weaken, even in real estate. Mr. Moore indicated he needed clarification. Mr. Rue stated the Plan has really attractive looking three and five year numbers on the stable assets and those are beginning to deteriorate to certain degree therefore the Plan won't be seeing those three and five year numbers going forward. Mr. Moore inquired if the same is true of the real estate. Mr. Rue responded affirmatively. Mr. Moore inquired what accounts for the variation between the two real estate indexes PCA uses, Wilshire REIT and NCREIF. Mr. Rue stated, in respect to REIT, it is supply and demand and is also considered an asset class and is not very big compared to the other asset classes, about $150 billion in size, and in contrast, overall domestic equity is $ 10 trillion, so it can be pushed around, supply and demand wise. He noted there has been some debate whether or not the change in tax law effects REIT's or not, be that as it may, people are looking for dividend yield in securities and REIT is one of the places one would go for this, so retail space demand will push the REIT return up. He added it will have a 4 and 7% yield, depending on what REIT one picks, which will prove to be attractive during a difficult cycle. Mr. Rue indicated REIT's versus a real estate group or private real estate is over-valued right now, but on the five-year number, in the late 90's they pretty much were in the tank, they are a small cap value stock, so people were avoiding them and so this is some of the results that are happening now.

Mr. Rue summarized the two biggest managers, The Boston Company, valued at over $ 1 billion and TCW at $1.6 billion produced fairly decent results versus both the S&P and the Russell 1000 values. He added the value orientation those portfolios have had in the first quarter helped to some degree. Mr. Rue stated over the one-year number, because of the reversal of growth stocks coming back into play, it has not been the most favorable place for the Plan's existing portfolios, but again over longer term over three and five-year, produced very strong results.

President Romero inquired if PCA had the data of the performance for the three and five-year results of the managers. Mr. Rue explained these were new accounts, which were transferred over to the Boston Company and Standish Company, and this is why the particulars are not charted. President Romero stated the Plan has had these accounts for over three and five years, so shouldn't there been some indication of performance. Mr. Rue explained they are operating under a new discretionary mandate, which they did not have prior to this, so, they are different accounts and this explains why PCA noted N/A (Not Applicable) for various periods. Mr. Moore inquired if this is true of some of the equity managers. Mr. Rue responded just The Boston account. President Romero commented Highmark is now an active management account. Mr. Rue stated it is operated under discretion. Mr. Vellon commented this is true of the equity portfolio as the Plan did all the equity changes at the same time for every manager and there is a long history for equity of The Boston Company and TCW. Mr. Rue warned the Board the assets were not transferred to new teams or new firms, it's a different group running the money for the Plan. He stated, even though the portfolio is the same, Standish is a completely new manager. Mr. Vellon indicated Standish is part of the Boston Company and the Boston Company decided to farm out the bond management to the Mellon side and in actuality, certain staff were physically transferred from Boston Company to the Mellon organization, but it was the continuity of the same mandate, same policy, and same principals. President Romero stated it would have been nice to see what the three and five-year results would be, because it is the same product, even though there are new people. Mr. Vazquez added the data is out there for those time periods and could have been combined with these to show the three and the five-year results. Mr. Vellon stated it is the same manager, same firm, same people doing everything exactly in the same manner and understanding. He clarified the Board did not select a new firm, they stuck with The Boston Company. Mr. Rue indicated he would check on this. He added the Board should keep in mind, as they hire new managers, there would be a lot of N/A's (Not Applicable) showing up for the managers.

Mr. Moore stated at the August 20, 2003 meeting, one of the reports given to the Board was Statement of Investment owned as of June 30, 2003 and it was broken down in terms of various funds. He noted at the very end of the report, there is a break down just of the retirement fund. Mr. Moore indicated, in reviewing this report, he was trying to get a feel for where the portfolio was and how it had been performing over a three-year period and, as he was coming up with these calculations, showing the fund having been down this last year 4%, which is not the case if one looks at it in terms of the numbers being produced by PCA. He stated according to PCA's numbers, the retirement portfolio was up 2.9% and those numbers should show it being down 4%. Mr. Moore stated he would appreciate staff look at these numbers, because he doesn't know if there are some reconciliation which needs to be performed, or if his own calculations are wrong, or if there are problems in how the Board is accounting for these funds, versus PCA and the manager's account for the fund. Mr. Moore indicated if other employees or retirees make the same calculations, they would be a lot more concerned, particularly if the Board shows the portfolio up and these numbers show the portfolio down.

Mr. Vellon indicated, when one compares the financial statements, there are accrual and adjustments at the end of the year for purposes of the financial statement. Mr. Moore stated what needs to be done is to show some kind of reconciliation were the numbers come from. Mr. Vellon stated the numbers shown in the financial report, have been audited by the accountants, and he will have Ms. Sangeeta Bhatia present a report at the next meeting reconciling those numbers. He added there is a formula to the return calculations, which is different from the accounting and recordkeeping principals. Mr. Moore stated, ultimately there needs to be some reflection of where the money is coming and going out, in terms of payment to the retirees. Mr. Vellon stated this is reflected in the performance report and, for accounting purposes, it is accounted for when it actually happens, and for purposes of PCA it will be averaged out with the cash at the beginning of the quarter and what was the balance at the end of the quarter. Mr. Rue stated, in terms of cash flow coming in and out of the Plan, it will flow through the cash account, and PCA calculates performance based on day weighted cash flows and there may be differences between accruals and actual cash flows, and this information is coming from the custodian bank.

Mr. Vazquez inquired if the market values for each account are coming from the same place. Mr. Rue stated they come from two places, the managers and the custodian, the Zeigler Group reconciles those for PCA and makes sure they line up with each other. He noted the default is to go to one's custodian. More discussion ensued and Mr. Rue thanked the board and retired to the audience.

2. Standish Mellon Asset Management, LLC. Investment Counsel second quarter performance report (June 30, 2003).

Messrs. Robert Harkins, CFA, Vice President and Peter A. Lopez, CPA, CFA, Vice President Equity Analyst of The Boston Company and Dan Richter of Standish Mellon approached the table.

Mr. Vellon inquired if Standish Mellon and The Boston Company would speak a little on the history of both Companies' as there was some confusion earlier on in PCA's presentation.

Mr. Richter gave a brief outline of the management and organizational structure of the executives on staff at Standish Mellon, noting LADWP's Plan strategy falls under the Active Core Strategy, which is led by Marc Seidner. He indicated Mellon has over $130 billion in assets, over 100 fixed income professionals and obviously a focus and dedication to this sector in the market.

Mr. Richter stated the second quarter performance of 2003, for the regular LADWP account was 2.39% and the Highmark portfolio was 2.67% versus a Lehman Aggregate benchmark of 2.50%. He added, the year to date comparison shows 3.36% for the regular portfolio and 4.17% for Highmark versus 3.93% for Lehman Aggregate. Mr. Richter stated the difference in the two portfolios are pretty significant, with the Highmark portfolio, the guidelines were to monitor this portfolio as opposed to using their full discretion. He noted Standish Mellon is monitoring troubled credits.

Mr. Richter stated this portfolio has a high concentration of corporate bonds, well over 70% and has grown even more concentrated over the last year as mortgage back securities have prepays and those prepayments have led to cash leaving the portfolio, because part of the instructions was the cash would be swept away into the custodian bank account. He stated the big corporate weighting in the Highmark portfolio has helped, particularly in the last eight months. Mr. Richter stated, beginning with November 2002, corporate bonds have had a significant bounce back, performing very strongly and this has helped the Highmark portfolio. He mentioned, one of the objectives of Standish Mellon was to protect the portfolio by not having quite as high a weighting in the regular account, reducing some of the significant overweight exposure in the corporate bond sector and to diversify holdings of individual names.

Mr. Richter stated the Plan's portfolio continues to be underweighted in the Treasury sector and significantly overweight in Corporate Bond sector by roughly 47%. He noted the corporate sector weighting for the Highmark portfolio is at 73%, a very big difference between these two portfolios. Mr. Richter explained Standish Mellon went full discretion on July 1, 2002 and in doing a comparison on sector history, the corporate holdings on June 30, 2002 was at 57% and as of August 31, 2003 corporate holdings are down to almost 42% reducing overall corporate position in an environment where mortgages have been under a lot of pre-pay stress, yet Standish Mellon ran fairly close to the benchmark on the mortgage sector, at 29%, slightly lower than the benchmark weighting. He added on June 30 2002 Standish Mellon had approximately $336 million in corporate in the LADWP portfolio and as of August 31, 2003 this has dropped to $190 million representing 42% of the portfolio, having 35 positions on smaller total dollar holdings, giving an average position size in corporate holdings of $5.5 million, cutting the average exposure size almost in half at 1.2% average per holding of the total portfolio. Mr. Vellon inquired if the changes Standish Mellon was making in terms of the Plan's account by diversifying away from corporate was something they were doing across the board for all their accounts or just for the LADWP's Highmark account. Mr. Richter explained the Highmark portfolio is different from the other portfolio's Standish Mellon manages, including the portfolio for LADWP. He noted Standish Mellon was given full discretion though the Highmark portfolio is not as actively traded because they wanted to keep down turnover and transaction cost and keep changes in the portfolio to a minimum, yet manage it under historical standards of the guidelines and mandates given to them by this Board. Mr. Richter stated Standish Mellon continues to carry out their objectives for the Highmark portfolio in line with their other mandates but at a slower pace and in a little different way, therefore it is not as actively traded. He stated Standish Mellon usually holds approximately 100 corporate positions in many of the other active portfolios and as one can see, the Highmark portfolio is quite a bit smaller.

Mr. Vellon inquired if this was by design or by accident. Mr. Richter responded by design, because they were not given the o.k. to completely turnover the portfolio. Mr. Vellon inquired if within the guidelines the Board gave Standish Mellon for the Highmark portfolio, was this their level of comfort by keeping 35 positions and reducing the corporate. Mr. Richter responded affirmatively. Mr. Vellon inquired if Mr. Richter was suggesting the Board should be concerned with the weighting of the Highmark portfolio and should the consultant review this, since the Board is aggressively pursuing an asset allocation implementation and Standish Mellon's contract is expiring in December 2003. Mr. Richter stated there are significant differences, while corporates have performed well; Standish Mellon likes the corporate bond sector going forward from today, but questions whether the Board feels comfortable with it. He noted Standish Mellon does not feel comfortable with those risks in other strategies but they can live with this kind of corporate exposure for a short time period as long as they do not enter the type of environment experienced in 2001-2002 with Enron, WorldCom and Tyco which was a 70% plus corporate position and being a tremendous overweight versus the benchmark. Mr. Vellon inquired if Mr. Richter had any recommendations for the Board. Mr. Richter stated the easiest thing to do would be to manage both accounts the same, giving Standish Mellon full discretion using the same guidelines and mandates for the Highmark portfolio as the regular portfolio. Mr. Vellon noted there would be a new asset allocation set up as of January 1, 2004, would he still recommend this. Mr. Richter responded affirmatively. He stated this kind of overweight in corporates entails underweights in other sectors, putting the plan at risk for significant tracking errors versus the benchmark the plan is in. Mr. Richter stated if the Board believes this is the correct set of guidelines for the regular account, why this would not also apply to the Highmark portfolio, therefore, his recommendation would be to manage them both the same.

Mr. Vellon noted, historically, Standish Mellon has indicated they do not manage this account to track any particular index; it has evolved into what it is, so how does Standish Mellon reconcile this. Mr. Richter stated they can separate the two and they can look at the two differently. He noted the historic mandates before July 1, 2002, before Standish Mellon had full discretion, is trying to achieve the highest yield possible on a basic buy and hold strategy. Mr. Richter indicated Standish Mellon is still maintaining this philosophy with the Highmark portfolio and continues to manage it in this way. He stated, it has not done the Plan any disservice having a buy and hold strategy in the Highmark account with different guidelines than current account they manage. He added, there are some advantages by having the two accounts offset each other. Mr. Richter noted there are time periods were active management allows Standish Mellon to change exposures to the plan, and in one account they are changing those exposures and the other they are still holding those high yielding securities. Mr. Harkins inquired if within a buy and hold strategy world is the Highmark portfolio something Standish Mellon is comfortable with. Mr. Richter responded within a buy and hold strategy, yes, Standish Mellon is comfortable with this.

Mr. Moore inquired in looking at the mandate Standish Mellon has, do they feel it's appropriate reducing the exposure in the corporate area. Mr. Richter responded if the Board would like this to be consistent, it needs to be done and if the Board is comfortable for the time being, while this transition is going on then the portfolio can continue to be managed under the buy and hold strategy. Mr. Moore inquired if one was to go with a single philosophy for both portfolios and make trades necessary to do this and reduce the exposure, what sort of costs would there be to accomplish this. Mr. Richter indicated costs are nebulous when talking about restructuring a portfolio, because there are bid/offer spreads which depends on timing and on how it's done, sometimes it can be done at very little cost and sometime there is more, but, in a fixed income portfolio, bid/offer spreads on securities are very tight and the advantages of diversification over transaction cost would outweigh them. Mr. Moore inquired if the hand out given the Board included both portfolios. Mr. Richter responded in the negative adding Standish Mellon does not change the Highmark portfolio and how it looks in structure, whereas they do in the current portfolio, so the handout is on the historic comparison of the portfolio Standish Mellon has full discretion on.

Mr. Vellon stated, for historical purposes, The Boston Company was managing the fixed income portfolio under the same guidelines as Highmark, so when Highmark indicated they would not continue with LADWP, the Board assigned the portfolio to Boston (now Mellon) however, when the guidelines were implemented initially, the two companies selected different names for their respective portfolios and as Mr. Richter indicated, Highmark selected more names from the corporate. He explained, rather than doing wholesale strategy for the Highmark portfolio to fit the pattern of Standish Mellon, the Board suggested just monitoring what was already in the portfolio, since they were in the process of transitioning into new managers. Mr. Vellon referred to the earlier question by Mr. Moore regarding cost, stating the Board and Standish Mellon thought it was wise not to incur all this cost, because, within a close proximity timeframe, the assets were going to be moved either to Standish Mellon, under a new strategy which is different from what they have right now, or to another fixed income manager who would be doing something different all together, and this is why the Board had Standish Mellon monitor what was in the Highmark portfolio. Mr. Vazquez stated he would prefer recommendations from the consultants, PCA. Chairman Romero concurred.

Chairman Romero inquired about the Highmark portfolio. Mr. Richter stated Standish Mellon has done very little in the way of trades with the Highmark portfolio and are very comfortable with the credits. He noted the Highmark portfolio was structured very similar with the same set of guidelines as Standish Mellon's portfolio, and managed very similar with Standish Mellon, wherein they had a high quality portfolio.
Mr. Richter indicated the Highmark portfolio has been a pretty static portfolio and this indicates the quality of the portfolio coming over to Mellon.

Mr. Vellon inquired when waiting for a security to come down in price such as Dupont, wouldn't it make sense to maximize value before it goes down, or does Standish Mellon anticipate the fact that it's already in the portfolio for the long term, and it should be a security to have in the portfolio in as much as its already there.
Mr. Richter stated for the portfolio they currently manage under full discretion, they would sell it and look for better opportunities on a total rate of return basis, because they have a little bit more freedom of making trades, although their intent is to hold as long as possible, they would look for something that has more value. Mr. Vellon rephrased his inquiry stating if the portfolio is one and the same, from the Plan's perspective, and Dupont has reached a top value, would Mellon representatives believe it prudent not to sell that security at top value, and continue to hold on to it, or would they say this particular security has reached total value, based on Mellon intelligence, and is more prudent to move into another security that would produce better returns. Mr. Richter stated in a total rate of return account, its more prudent to sell and move into another security but in a buy and hold portfolio like Highmark one would want to hold the high quality securities, because it was purchased at the right price and yield basis. Mr. Vellon stated the concern he has is somehow Standish Mellon believes they look at the Highmark securities as having to keep them there forever, but if its prudent to take an action on any particular name, Standish Mellon

has an obligation to do what is prudent, based on the discretion they were given. He inquired if Standish Mellon believes from an intelligence basis that it's not prudent to hold on to Dupon, because it has reached a plateau value, why wouldn't they just do the prudent thing as opposed to holding on to the idea of a buy and hold strategy. Mr. Richter stated this goes back to the original question brought up, there was a different set of guidelines on how the Highmark portfolio was to be managed as opposed to Standish Mellon's LADWP's portfolio. He stated the wording around the Highmark portfolio was to monitor that portfolio. Mr. Vellon stated Mellon should monitor Dupont and if Dupont has reached it's plateau and Mellon thinks it's going to go down now, perhaps they should maximize value. He inquired what prevents them from doing this. Mr. Richter stated it doesn't fit with the historic norms of how this portfolio was managed, in that it was a buy and hold strategy only.

Mr. Vellon stated this issue is prudence. He added he was at a lose in that Mellon representatives don't seem to understand Standish Mellon is now the manager of the Highmark portfolio, and as the manager of the portfolio, if they believe that it is prudent, as a mange, to get rid of Dupont because it has reached its maximum value based on their own intelligence, there is nothing in the contract they have to prevent them from doing that. He noted, if Standish Mellon representatives believe it's more prudent to keep this security, of course there would be no problem with that. Mr. Richter stated he felt it was more prudent to keep it under the basic set of guidelines, unless those guidelines are not in a buy and hold strategy. He stated if Standish Mellon is misconstruing what the mandate was for the Highmark portfolio, which was to manage the way it had been historically managed, and not to sell a security unless you believe its principal or interest is at risk or for credits that are deteriorating, in fact that was the exact wording from the guideline. Mr. Vellon stated he would review the guideline and asked Mr. Richter to review it as well to be discussed down the road.

Mr. Vazquez stated he thought Dupont was highly rated, maybe they were over valued but its not doing anything to hurt the plan's portfolio. He indicated it was his understanding the Board didn't want Standish Mellon to reposition the plan's portfolio unless there was something that might hurt the portfolio to the extent they use a different strategy and sell and put it into something else, which might add potential value in the future. Mr. Vellon stated if it was put in such a way, he would not have any problem, but the way Mr. Richter explains it, causes some concern. He explained the confusion was if Mr. Richter was suggesting the portfolio has a security it shouldn't have (or a security it should have) from a prudence perspective, but if Mr. Richter was saying what Mr. Vazquez is saying, then he had no more questions. Mr. Richter confirmed he is saying exactly what Mr. Vazquez stated.

Mr. Vazquez stated Standish Mellon was given the Highmark to hold on a temporary basis until the Board could transition to fully discretionary mandates to another manager, be it Standish Mellon or someone else. He explained, the guideline was, if the credits were good just to keep them, unless, it was thought the value might be jeopardized, then something would be done about it. Mr. Vellon stated this is the key factor he was trying to surmise, which is Standish does not seem to understand the buy and hold strategy doesn't matter, what matters is they fail to see any jeopardizing of the Plan by keeping a security in the portfolio there. Mr. Vazquez stated the holdings in the two portfolios do not overlap very much in terms of names. Mr. Richter stated Standish got rid of a significant amount of overlap of names deliberately, reducing exposure in the regular portfolio so they were prudent with position, and every time there is an overlap, Standish will continue to reduce when opportunity presents itself.

Mr. Moore inquired about the other fixed income managers having a much longer average maturity and exceeding Standish's performance, was it because they had much larger longer term maturity and consequently had more capital gains as interest rates have been falling. Mr. Richter stated long duration has certainly helped for some period of time. He noted this has been one of the most aggressive interest rate cycles ever experienced, going to all time lows that haven't been seen in well over 40 years, the lowest reached in June, with this being said, Standish has bounced back significantly since then, which is one of the reasons Standish brought the duration down in the regular portfolio, and the Highmark portfolio has performed so well certainly because of long duration.

3. The Boston Company Asset Management, LLC. Investment Counsel second quarter performance report (June 30, 2003).

Mr. Harkins, of the Boston Company, stated their main objective was to outperform the Russell 1000 Value Index over full market cycle using the historical concept of investment, which was summarized by Mr. Rue of PCA, being a value tilted, high quality, low volatility portfolio. He stated, for the quarter ending June 30, 2003, there was a very strong significant increase in the portfolios value of 16.1% (for the quarter), but did (slightly) lag the Russell 1000 value, which was up 17.3% and that's within the TBC historical portfolio. Mr. Moore inquired about the concept of "equity only" and what is it TBC is ruling out. Mr. Harkins noted they rule out cash. Mr. Harkins mentioned the Highmark portfolio, being a little bit lower, increased 14.1% for the quarter versus the 17.3% for the Russell 1000 Index. He noted, TBC is monitoring for impairment so it's a hold or sell strategy, in accordance with the guidelines that was worked out when TBC took this on, back in July of 2002.

Mr. Lopez stated they try to buy stocks that are cheap, and in effect, try to buy stocks at a dollar worth of assets for something less than a dollar and, second, buy stock that has sound business fundamentals for the company and the industry and to avoid the value trap. He stated TBC likes to find stocks with strong business momentum. He mentioned for the TBC portfolio, financial service contributed significantly to performance during the quarter and the portfolio contributed 6.4 % equal to the index and the reason for this significance is TBC was actually underweight and the stocks in the portfolio had outperformed the stocks in the index, so stock selection helped the Plan's portfolio in this sector. Mr. Lopez noted the utility sector underperformed for the quarter and the real reason was specifically the RBOC's (Regional Bell Operating Company) i.e., Verizon, SBC, and Bell South. He elaborated on relevant market developments. He noted the energy sector outperformed for the quarter benefiting DWP, specifically because TBC still sees low valuation in the big multi national integrated oil companies, such as EXXON Mobil.

Mr. Lopez stated the Highmark portfolio performed very well in financial services and healthcare and the main reason for the underperformance is technology. He noted the Highmark portfolio had less technology than the index and the TBC portfolio had more diversified technology, IBM specifically. Mr. Lopez stated of the specific stocks which helped and hurt performance for the Boston Portfolio, the 4 of 5 which added value were all financial service names and all benefited from both improving credits and the beginning of an economic recovery which has led to improved capital markets. He noted of the stocks that subtracted value included a number of consumer related stocks. Mr. Lopez mentioned, subsequent to this, all five of the stocks listed have recovered and they are back at the levels they were, going into the second quarter. Mr. Lopez stated for DWP Highmark all five of their top stocks were financial services stocks, and the stocks that subtracted value, again, were the consumer stocks, noting it was a very difficult quarter for consumer related stocks.

Mr. Lopez stated TBC portfolio characteristics are the ten largest holdings in the portfolio, which comprise only 32% of the portfolio and is very well diversified with blue chip names and high quality, low valuation. He noted in the economic sector weighting, basic industry is underweight on average and overweight in capital goods and this should benefit the Plan's portfolio in an economic recovery, should it continue in a high fixed, low variable cost, so, as the economy recovers, the increase revenue would drop to the bottom line. Mr. Lopez indicated for the Highmark portfolio this too is a very high quality portfolio, with low valuations and the top ten largest holdings are also well diversified. He noted the economic sector weightings are overweight in healthcare, which has done very well for the portfolio and underweight in technology, which has hurt the portfolio.

Mr. Vellon stated he heard distressing news from the consultant that the Board may not be done with choosing new managers by the end of the year. He noted TBC had been very cooperative with the extension of the investment contracts. He inquired if TBC would be willing to extend the contract for another 3-6 months under the current terms. Mr. Harkins stated if and when the Board is ready to make that request, to let him know and he will get right on it with their CEO. Mr. Vellon asked if he could explore this today and give him an answer, because it will come up to the table and this will be one of the options to consider. Mr. Harkins responded affirmatively. Mr. Richter inquired if it would be the same for Standish Mellon. Mr. Vellon stated it was a universal question for TBC, Standish Mellon as well as TCW when they meet with them.

The representative from both Standish Mellon and The Boston Company were excused and left.

President Romero stated the Board needed to take an action on item 5 & 6 and ruled these items be moved to the next meeting.

Mr. Vazquez stated he didn't think any action needed to be taken today, but he requested a resolution on item 7, based on PCA recommendation of Board action, because there is not one in the package. Mr. Vellon stated staff did not think a resolution was needed. Mr. Wilkinson reiterated this is a Committee meeting and any action taken here would then flow through to be an agenda item for the full Board in some future meeting.

7. **Consideration of Plan Consultant's Request for Board evaluation of Pending Request for Proposal (RFP) relative to past due dates (over 120 days).**

Mr. Rue suggested Board members make sure there was no problem and verify with counsel, on how the Board stands with item 7. Mr. Wilkinson stated the Committee had no problem with the suggestion from PCA. Mr. Rue stated the plan, as the Board moves forward with the small value searches, is to get updated information from these managers, and as of today's date is September 30, one would want to look at September 30 data when looking at these managers.

Mr. Vellon inquired if this would be treated as an extension of the initial RFP, which was issued by PCA. Mr. Rue stated they did not issue the RFP, DWP advertised it and PCA prepared the draft letter. Mr. Vellon stated he felt more comfortable if the ones who responded continue to communicate with PCA. President Romero stated he felt the same way. He suggested PCA ask the managers for an update on the information they sent the first time, and for PCA to instruct the managers to work directly with PCA, to eliminate having another middleman involved. Mr. Vazquez stated the Board is in full agreement with PCA's recommendation, and they can ask for updates in certain qualitative areas and updates in any other area were there has been a significant change and ask for an extension of 180 days.

Mr. Vazquez moved approval of item 7. Seconded by Mr. Moore and carried unanimously after the following vote:

Ayes: Romero, Vazquez and Moore
Nays: None

Mr. Vazquez left the meeting at 12:10 pm.

4. **TCW Asset management Company Investment Counsel second quarter performance report (June 30, 2003).**

Messrs. James Tilton, Managing Director-Portfolio Manager and Barr Segal Managing Direct-Portfolio Manager and Ms. Delia Roges, Sr. Vice President-Client Relations of TCW asset Management Company approached the table.

Mr. Vellon stated, for the record, TCW was very helpful to the LADWP Plan in the transition to the Russell 1000, particularly in identifying the portfolio the plan was to carve out for the transition.

Mr. Tilton stated they have stopped managing the equity portion of the account on August 4, 2003 and as of the end of that day, year to date, the equities were up 13.09%, S&P 500 was up 12.79%. He handed out a report and noted this gives a history going back 20 years. Mr. Tilton stated today was his last day after 29 years of sitting at the table with LADWP Plan Board. He stated, looking at all the returns going over a 20-year period, the LADWP Plan is in the first quartile. Mr. Tilton stated they have saved the chips on the down side, and year to date, TCW has gotten the plan market returns and have not taken a lot of risk.

Ms. Roges indicated TCW uses the Morningstar Universe of large cap growth managers, primarily because this is an intra-month quarter and most institutional databases are not available, only at the end of the quarter. She explained this is only a proxy of where the plan stands quartile-wise, through the end of July 2003, the first full month ending the period time Jim Tilton was actively managing the portfolio. She stated, on average, DWP portfolio has been impressively in the top deciles of performance. Ms. Roges stated the portfolio has $1.6 billion in asset through the end of June 2003 and, on a year to date basis, the security selection added attribution to the portfolio primarily coming from financial and material. She noted the weighting in the portfolio plus the security selection helped the portfolio tremendously and the performance, on a year basis, through the end of June was about 200 basis points slightly below the S&P 500. Ms. Roges stated this was due in part to some of the healthcare securities within the portfolio as well as industrial, which detracted performance on the portfolio.

Mr. Tilton stated for the first six months of this year, financials were about 28% of the portfolio, and as of June 30, they are at 21%. He noted, the positive force in the portfolio was clearly financial. Mr. Tilton stated technology and healthcare did o.k. costing two points in that particular sector. Mr. Tilton noted Northrop and Lockheed Martin was added four or five months ago and when the war started, people sold into it and TCW bought those stocks on the break, down 30-40% and they've been flat up just a little, but going forward, he would have added more to both those companies as the defense spending continues to grow and those two are really dominating this marketplace.

Mr. Segal stated TCW portfolio is basically a little longer maturity than the bond market with a heavy emphasis on investment grade corporate bonds, and, as it turns out, since October 2002, interest rates have been falling, which is positive, but corporate bonds have been outperforming government even in a bond rally. He noted the one and three-year marks are all ahead of the benchmarks annualized, over 23.5 year and, are on top of the index over this period of time. Mr. Segal stated the other plans have a little bit of dispersion in returns off and on but year to date are starting to converge quite a bit and are all showing positive returns. He noted going forward the strategy is to avoid taking severe credit risk, having a higher quality corporate bond portfolio than the benchmarks, preferring a large vision in corporate bonds and going forward expect corporate bonds to behave pretty much fairly against governments. Mr. Segal stated TCW doesn't expect the kind of outperformance received in the last six to eight months, but believes the economy will grow, although the ride will be somewhat bumpy and this will be good for corporate bonds.

Mr. Moore inquired what the average maturity toward the end of this period was.
Mr. Segal stated, duration, which is the measure used to measure interest rate risk is 7 years and maturity is about 10-12 years on average. Mr. Moore inquired if TCW is in the process of shortening this. Mr. Segal stated they are not at this time, as for this

particular account, the strategy has always been to be a little bit longer than the market and focus on income and corporate bonds. Mr. Vellon inquired if exposure to corporate was by design or by accident. Mr. Segal responded by design. Mr. Vellon noted the prior presenter was concerned about the exposure to corporate, noting the two managers were looking at the same market with different perspectives. Mr. Segal stated with corporates, the outperformance they've seen has been with the lowest quality companies doing the best. He stated the Plan's portfolio is a bit better quality than the market so there is some risk that lower quality companies can't continue to do as well and the better quality companies will outperform, but TCW thinks with the Plan's portfolio structure, being of better quality, it'll be able to withstand pretty well.

Mr. Vellon stated there is concern about not being able to implement all the asset allocation changes by Dec 31, 2003 which is one of the options the Board will be facing, to extend the current contract under current terms for 3-6 six moths, if this is the case would this be something TCW can accommodate. Mr. Segal responded affirmatively. Mr. Moore commented TCW has established and earned a very good reputation in the process of performing their duties and as one of the Board members, he wanted to extend to TCW the Board's great appreciation for a great effort and job well done. Ms. Roges stated it's a very meaningful account as it was the first account when TCW opened the doors.

The Board thanked and excused the representatives from TCW.

5. **Consideration of Pre-Tax Program for Service Credit Purchases under the DWP Plan. (Attorney Terry Rosales and Mr. Peter Lakatos will be in attendance to answer questions).**

Mr. Vellon explained Mr. Lakatos provided an updated report regarding item 5 which states all the unions are in agreement an this puts the Board in a position to submit a plan amendment to the Board of Commissioners. He noted this would be added to the agenda for the next Board meeting and will include a proper resolution.

6. **Consideration of Plan (back-up) portfolio transition providers after full funding of the Plan's passive Russell 1000 allocation, as recommended by the Plan's consultant Pension Consulting Alliance (PCA).**

Mr. Vellon inquired if the Committee members wanted to consider item 6 since Mr. Vazquez was not present. Mr. Moore indicated he would prefer to discuss this item with all members for full participation.

8. **Retirement Plan Manager's Comments**
    a. **BNY GTM Proposal proposed cents per share cost on the upcoming Domestic Equity transitions.**

b. **Correspondence from Bank of New York Western Trust, relative to the Nations Funds administered by Bank of America.**
c. **Personnel changes – Fred Alger management, Inc.**

Mr. Vellon reported on miscellaneous items stating a proposal was received from Bank of New York to do the large growth and the large cap value transitions in the area of $848 million dollar transition. He noted BNY indicated they are willing to do this at half cent a share, which is extremely competitive, especially if they continue to do the same quality of transition as they had done this last time around. Mr. Vellon stated staff are in the process of working on a contractual agreement and expect to have something on it this week and will continue to keep the Committee posted on this.

Mr. Vellon reported about receiving correspondence from BNY regarding the Nations Fund scandal and Bank of America (BofA) and the Plan has some exposure to this through the STIF fund (Nations, short-term investment fund). Mr. Vellon stated BNY indicated the Board has this exposure on their own, which was a surprise the Board always worked through BNY and actually negotiated the basis points fees for that STIF fund with BNY and not BofA. He noted this needs to be reviewed and a report given to the Board. President Romero stated he would like a better understanding of the relationship, if it has nothing to do with BNY, why aren't we negotiating with BofA. Mr. Vellon indicated he would be giving updates on this. Mr. Vellon reported receiving a letter from Fred Algers indicating Mr. Dan Chung was appointed president.

The meeting was adjourned at 12:25 pm.

DUAMEL VELLON Retirement Plan Manager	JAVIER ROMERO President

SILVIA TESSENEER
Recording Secretary