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

MINUTES – DECEMBER 3, 2003

Present:

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

Absent:

Leland Wong	Commissioner
Dan Mirisola	Board Member
David H. Wiggs	General Manager

Others Present:

Duamel Vellon	Retirement Plan Manager
Vikki Burks	Recording Secretary
Mike Wilkinson	Deputy City Attorney
John Charley	Pension Consulting Alliance (PCA)

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

[Pledge of Allegiance]

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

PUBLIC COMMENTS

President Romero inquired if there were any public comments and there were none.

1. Consideration of Responses to the Plan's Request for Proposal (RFP) for Domestic Small Capitalization Growth Managers and possible selection of a manageable number to be invited for interview.

Mr. Vellon explained item 1 represents PCA's summary of responses to the RFP for Small Cap Growth Managers, which were included in the Agenda Packet. He noted Mr. John Charley, from PCA, was present to assist the Board.

Mr. Vellon explained the asset allocation adopted by the Board included approximately $80 to $100 million for one Small Cap Growth Manager, which the Board would select at a later time. Mr. Moore stated the resolution included in the agenda packet described the Value

Small Capitalization Manager rather than growth style. Mr. Vellon indicated it should be Small Cap Growth and the proper corrections will be made on the agenda materials.

Mr. Charley reported PCA issued their usual memo with the names of potential candidates who met minimum qualifications of the RFP and also with an indication as to whether or not there were any caveats in terms of meeting the Board's qualification requirements. He added PCA sent a letter to the Small Cap Growth Managers asking them to reaffirm both their initial bid and their qualifications (as of September 30, 2003) since the original RFP submitted had elapsed. Mr. Charley stated PCA believes these sets of managers represent a good offering of candidates, however, he is here to answer any questions regarding any of the other candidates.

President Romero inquired if the RFP sent included a listing of minimum requirements and if there is anything in those requirements which would prevent a firm, who doesn't meet those qualifications, to apply. Mr. Charley responded in the negative and indicated there is a statement in the RFP, which states, "if minimum qualifications are not met, the Board may elect to dismiss the proposal."

Mr. Vazquez noted the phrase "limited capacity" appeared in the updated response column for Westcap. He inquired if Westcap would be able to handle $80 to $100 million dollars. Mr. Charley responded affirmatively, adding, in a recent phone conversation, Westcap stated they were effectively closed to new investors, as they are near capacity, but they could still take approximately $50 to $100 million dollars.

Mr. Moore noted Westcap had a higher market cap, and inquired if this meant their portfolio average capitalization was higher than $400 million dollars. Mr. Charley responded in the affirmative and noted as more assets come into the fund, the managers are often forced to increase the average size of the company, otherwise, one would end-up with hundreds of stocks just to be able to manage the portfolio. He stated, as the portfolio reaches its capacity, often one would see the market caps spike, which is what happened with Westcap. Mr. Charley indicated PCA took this into consideration when looking at their quantitative aspects of the portfolio. He explained their historical performance was at a lower market capitalization, and now it is a higher market capitalization, so this has to be taken into account by the Board. Mr. Moore inquired about the difference between their average market capitalization now and what this Board is looking for, which is approximately $400 million. Mr. Charley indicated the Russell 2000, which would be the benchmark, is at $700 million, and Westcap is well over a billion now, so such difference could have a material effect.

Mr. Vellon indicated UBS managers indicated in their proposal they had reached the capacity of the product they offered when they initially responded to the RFP. He noted, their updated response to PCA suggests they would be opening a new fund this time, so the Board would be looking at the new product versus the one in the initial RFP response.

Mr. Vazquez inquired about the firms meeting all the qualifications, how do they rank in terms of risk-adjusted performance? Mr. Charley stated 4 out of 5 of these firms were in the top ten, and Delaware probably had the lowest risk adjusted performance of the five. He added all five had very competitive risk adjusted performance. Mr. Charley suggested some other issues the Board should possibly look at were: 1) Morgan Stanley has had some issues with their brokers and came to a settlement with the SEC on this, therefore the issue is closed in this respect. 2) Westcap had no issues. 3) American Express, as far as he knew, also did not have any issues. 4) Delaware, might possibly have some litigation issues. 5) FTI's team basically turned over in 2000, which is one of the reasons why they were not in PCA's top 10.

President Romero expressed he would want to go with firms showing no caveats and meeting the minimum requirements of the RFP. He stated the 4 firms PCA recommended without caveats are all ranked in the top 10 and he felt these were good candidates to pick from. Mr. Moore expressed concern regarding Morgan Stanley, which he considered a great firm, but, have had their share of problems in recent years and this troubles him, as this seems to be the same situation the Board is now experiencing with Fred Alger and Invesco. He noted Morgan Stanley has paid a $50 million dollar fine on shelf space issue, for the payments they were getting but not disclosing. He added they were also part of a settlement of possibly $1.4 billion relative to the skewing of their research, and more recently they have been involved in the issue of incentives to their salesmen on fund sales. Mr. Moore stated they have issues and the question is whether the Board wants to expose itself to this, given the difficulty the Board has been having, just wrestling with the Fred Alger issue. He suggested the possibility of considering firms from the second column of PCA's memo if the Board prefers more in the way of options.

President Romero stated his concern on those firms listed in the second column was these firms have insurance issues, which is something risk management feel very strongly about offering very little flexibility on the issue. He stated the Board should possibly look at firms not quite meeting the minimum size or other requirement. Mr. Moore stated he would be very open to this.

Mr. Vazquez inquired what requirements PCA felt Turner and Bank of New York (BNY) did not meet. Mr. Charley explained, with BNY, they stated the firm size is less than one billion and this is incorrect, especially when one includes the bank's assets, it is much larger than this, but where they did not really meet the requirements was the 3 portfolios over $100 million. Mr. Charley stated both BNY and Turner were rated very well by PCA and BNY looks like they are headed in the right direction as they have recently hired Mr. Steve Zarcowitz previously of Alliance Bernstein Company, and he used to be head of their research (which is basically what they are known for). He noted Turner has had very few issues, and their personnel turnover is remarkable with only one Portfolio Manager/ Analyst, who left over the last year, and they certainly have more than adequate resources. Mr. Charley stated either one of those two firms would certainly be a good candidate for placement.

President Romero inquired if the Board would feel comfortable with interviewing Westcap, American Express, Delaware, Turner, and BNY. The Board members responded in the affirmative.

Mr. Vazquez inquired what the meaning of “Non-AIMR compliant” was for BNY. Mr. Charley explained AIMR means Association on Investment Manager Research. He indicated AIMR provides standards relative to how firms calculate and present their performance results and often a firm will use their methodology, which will be audited, but it may not be AIMR compliant, because they have not gone through the process. He added, many times when portfolios are built, it is a painstaking process, depending on the amount of assets and how long the portfolio has been around and, due to this type of thing, some managers will be AIMR compliant and some will not. He continued by stating some boards consider it a requirement and some do not. Mr. Moore inquired if it’s universally accepted as a standard everybody complies with. Mr. Charley responded in the negative. He mentioned, in most other funds, the institutional quality managers will have AIMR compliance. He added, in small cap managers, given the size of some of the firms and the cost involved, (and it is a time consuming process) small cap firms do not always use these standards. Mr. Charley noted it does not mean they are not audited, all are audited and it does not even mean they are not following AIMR procedures, it just means they have not gotten the stamp of approval from AIMR. Mr. Moore inquired, with respect to Turner and BNY, and the lack of 3 portfolios greater than 100 million, how close are they to this requirement. Mr. Charley responded he did not know. President Romero stated BNY has 18 accounts of $702 million and a median market cap of $1.2 billion, 31% turnover, with 115 equities. He stated he was comfortable with interviewing BNY, along with the other four mentioned.

Mr. Vazquez inquired about the reservations PCA had for the FTI firm, since the firm met all the minimum qualifications, yet was ranked 16 by PCA. Mr. Charley explained several Portfolio Managers and analysts left in 2000, which meant their team basically turned over in 2000. Mr. Vellon commented the team, which had the performance at FTI, ended in Time Square Management Co., also responding to the RFP.

President Romero expressed his reservation regarding FTI was because almost the whole team left and went to Time Square. Mr. Vazquez stated he was comfortable with interviewing those 5, which were Westcap, American Express, Delaware, Turner, and BNY. President Romero commended Mr. Moore for having had the right thought process with respect to the money managers, such as Morgan Stanley, considering the responsibility Board members have with what these managers are doing out there.

Mr. Moore moved approval of the Westcap, American Express, Delaware, Turner, and BNY to be the interview candidates for the Small Cap Value Manager search. Seconded by Ms. Calvache and carried unanimously after the following vote:

> Ayes: Romero, Calvache, Moore and Vazquez
> Nays: None

Mr. Moore inquired, with respect to Vanguard, will they not sign the L.A. City Affirmative Action program. Mr. Charley stated Vanguard is an interesting company, it is owned by the fund holders and they also have a number of sub-advisory relationships and, given this, they could not meet all the qualifications as stated, it is mostly a function of how they are organized.

Mr. Vazquez inquired, in regard to the situation with Invesco, Fred Alger, and all the others, does PCA expect to see a big exodus from those funds. Mr. Charley stated he believes it is a matter to be evaluated on a case-by-case basis. He explained PCA has spoken with Fred Alger and they stated they really have not seen a large flood of assets. Mr. Charley stated PCA did call a couple of Alger's current clients and they seem happy with Fred Alger. Mr. Charley then stated, with regard to MFS and the others, much of it depends on what type of assets are in those companies. He noted Fred Alger has many institutional assets, which are a little slower moving, but with most of the large organizations having a number of mutual funds and literally thousands of brokers, there is a good chance they will be subpoenaed in terms of these issues coming up, such as late trading and market timing.

President Romero expressed concern over so many of the companies Board members have been interviewing, which seem to be involved in this issue, such as MFS, Morgan Stanley, and Invesco. He stated, it seems each week more names are being added to the list of investigation by the SEC and it feels as if there will not be any firms left to consider. Mr. Charley stated they come out in waves in terms of who the SEC is looking at. He explained the firms one will not see in the news headlines are the ones without mutual funds, since this is what all the issues revolve around, therefore, some of the smaller companies, such as family owned companies, or even smaller firms, are probably less likely to be investigated. Mr. Charley stated many of the big firms have a good possibility of at least being subpoenaed and it is really up in the air right now as to what the SEC is going to do, in fact they are meeting on it today to discuss it.

Mr. Vellon suggested Board members make a record and clarify the thought process relative to the other firms not meeting the criteria requested in the RFP, who may call inquiring as to why they were not selected to be interviewed. He noted his impression is the selection of Turner and BNY, for interview, was predicated on the ranking PCA put together, placing these two firms in the top 5. It was the consensus this was the case.

Mr. Vellon reported the transition program designed to fund the newly selected large growth and large value managers is progressing. He added, initially, the amount for the funding, was approximately $212 million per manager, but, because of the market value changes, the funding is now at $240 million. He noted Invesco happens to be one of the firms in this funding transition and recent articles, regarding the SEC Investigation of Invesco have been included in the agenda packet.

Mr. Vellon explained a meeting with Boston Company representatives was held to help sort out and re-optimize the remnant portfolio. He indicated the funding process will continue in coordination with BNY/GTM, to fund the 3 suggested managers, excluding Fred Alger, as the Board decided to hold off on the funding of this firm, due to recent events. He further explained the managers to be funded issued a "buy-list," identifying securities they would have purchased for the Plan's portfolio had we funded them. He explained these are referred to as "in-kind transfers" and the market value of these was approximately $280 million, of the $722 million total transactions. Mr. Vellon indicated approximately $400 million will have to be sold either in the open market or have BNY/GTM "cross" these trades with other clients, to minimize market impact. He explained the $400 million, which will be sold, was coming out of the Boston Company equity portfolio, with assistance from the Boston Company staff. He indicated the Boston Co. staff ran a portfolio optimization software, to produce the most efficient remnant portfolio. He described this procedure was intended to produce a remnant portfolio which has acceptable risk characteristics, so as to not leave the Boston Company with a high risk portfolio. He noted, after this transition the tracking error would be reduced from 2.81%, compared to the S&P 500, to about 2.02%. Mr. Vellon stated, BNY/GTM has the complete list of securities to sell, and now all is left is for the Board to instruct BNY/GTM as to when to execute the transition. He noted this date will remain confidential. Mr. Vellon concluded whenever this takes place, BNY/GTM will execute within a day.

Mr. Vazquez inquired what was the Board's cash position. Mr. Vellon responded it is over $1 billion. He added this cash reserve will be used for funding of the international managers (developed markets) whose contracts are presently being discussed. He added the next step in the process is the transition (from cash) once the Board decides who is going to be doing the transition on this segment of the portfolio. He reiterated the international transition would only encompass the buy-side, since they will be funded with cash.

Mr. Vazquez inquired if it would not be best to hold the Plan portfolio securities and use the cash reserves now, versus selling the securities. Mr. Charley responded it is difficult to say.

Mr. Moore stated another issue the Board has been alluding to is the issue of Fred Alger and Invesco. He noted the SEC's charges are very strong in terms of what they have done and what they knowingly did and in terms of the way they handled those portfolios. He felt this is a significant problem. Mr. Moore stated the Board now has the option, before the transition occurs, of saying "I just don't feel comfortable with this." Mr. Moore expressed he personally feels the same about Invesco as he does with Fred Alger and, even though this Board has not reached a majority decision regarding the transition and funding, this would appear to be the time to make the decision, not after one gets invested. President Romero concurred.

Mr. Harkins, of The Boston Company, approached the podium in response to Mr. Vazquez' question. He expressed his belief the reason PCA had recommended using the domestic portfolio, to fund the domestic manager, is the magnitude of the savings the Plan gets from in-kind and cross-over, outweighing the benefit of using the cash and putting the cash to work in a potentially higher yielding asset class. He advised this dynamic has not changed at the present. Mr. Vazquez expresses he was comfortable with the in-kind transfer and his concern was in regard to selling additional securities out of the Boston Company portfolio versus use of cash.

Mr. Vellon stated, for the record, the issue Mr. Moore brought up regarding Invesco is well taken and it is important if the Board has any reservations regarding Invesco or any other manager, to make a decision quickly, because once BNY/GTM report they are near the point of what BNY refers to as “good order,” all they need is for the Board to give the “ok” to execute all trades. He added once this happens the transaction costs, execution costs, and the like will be incurred and any decision to terminate any manager after this point will be costly.

Ms. Calvache inquired if the Board could discuss this at the next Board meeting. Mr. Vellon responded in the affirmative and it was the consensus to put the item on the December 10th Agenda. Mr. Moore inquired if the Board can take an action, assuming a unanimous decision was made, to put this on hold in the same manner as Fred Alger, until the Board can make a firm decision. Mr. Wilkinson stated not today, but it could be done for a future meeting. Mr. Vellon explained he did not anticipate the execution (of the portfolio transition) would be completed any time before the 10th of December, but it could be any day between the 10th of December and January 31, 2004.

Ms. Calvache inquired about the Board meeting on December 17,2003. Mr. Vellon replied there is a regular Board meeting on December 17, 2003, but this issue can be put on the agenda for the meeting on December 10, 2003, to give the Board the opportunity to be more specific in the directive. Mr. Vazquez inquired if the Board had already taken action with regard to Fred Alger. President Romero stated, due to the inaction at the last meeting, regarding the Fred Alger issue, this, along with Invesco, will be on the agenda for the December 10, 2003 meeting.

Mr. Vazquez expressed his desire, at the December 10th meeting, for a representative from PCA to be available to give the Board their view of these pending litigations and what it means in terms of the Board’s selection of these firms as managers. Mr. Charley responded he believed Mr. Neil Rue would be in attendance.

President Romero took this opportunity to thank The Boston Company for their cooperation and their assistance in rebalancing the remnant portfolio so it contains good quality securities. Mr. Vellon added the response time from the Boston Company was immediate, helping the Board move forward within the predetermined time schedule.

Mr. Vellon inquired if there would be any objection to starting the meeting on December 10, 2003 at 8:30 A.M., since, along with the scheduled interviews, there would now be the above mentioned agenda items to discuss. Board members agreed to beginning the meeting on December 10, 2003 at 8:30 A.M.

President Romero inquired, should the Board decide to go with other companies, in place of Fred Alger and Invesco, would the selection of the alternative company be done at a separate meeting. Mr. Vellon stated the selection can be done at the meeting on December 10, 2003, but it needs to be posted on the agenda, along with gathering all necessary materials the Board would need to make a decision. Mr. Moore expressed he was very comfortable with this, but his concern was the Board would be pressed to deal with much business before the day Commissioners meet on December 17, 2003 and he thought Board members needed to be out of the Board room by 11:00 A.M. He suggested, it would be good if the Board was able to receive a report from PCA, relative to the firms who would be recommended for replacing Fred Alger and Invesco, should the Board take this action. He further expressed this should be done so the Board would not have as many questions to deal with at the meeting on December 17, 2003.

Ms. Calvache reiterated the Board meeting will start at 8:30 A.M. on December 10, 2003. Mr. Vellon added the regular Board meeting on December 17, 2003, would also begin at 8:30 A.M. He indicated the 5 finalists, whom the Board identified today would be notified regarding the interviews on December 10, 2003.

The Board meeting was adjourned at 10:43 A.M.

JAVIER ROMERO President	DUAMEL VELLON Secretary

VIKKI BURKS
Recording Secretary