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

MINUTES – June 2, 2004

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Ron Vazquez	Chief Financial Officer
Gerard McCallum II	Commissioner
Michael Moore	Retiree Member

Absent:

Dan Mirisola	Board Member
Frank Salas	Acting General Manager

Others Present:

Adriana Rubalcava	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Michael Wilkinson	Deputy City Attorney
Neil Rue	Pension Consulting Alliance

President Romero called the meeting to order at 9:05 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Rubalcava indicated there is quorum of the Board present.

PUBLIC COMMENTS

President Romero inquired if there were any public comments. Ms. Rubalcava stated there were no requests for public comments.

1. Membership Case – Michael D'Andrea

Ms. Bhatia provided a brief overview of Mr. D'Andrea's case, stating it was an appeal on the denial of the purchase of his Other Government Service (OGS). She explained Mr. D'Andrea had requested the purchase of two semesters for academic years 1999 and 2000 for his previous employment at a university wherein he was classified as temporary part-time but carried a full-time course workload. Ms. Bhatia further explained that, under the provisions of the Plan, staff is required to determine if service was full-time and for a minimum of six continuous months. She indicated staff spoke with Mr. D'Andrea's previous employer and received letters from Ms. Gunderson (Director of Payroll and Benefits) affirming he was not a full-time employee and did not contribute as such. Ms. Gunderson did however state that Mr. D'Andrea did have contributions in PERS. Ms. Bhatia noted in the documentation provided by Ms. Gunderson, it states if an employee had worked for two consecutive semesters, even if part-time, they qualify to contribute to PERS. She stated after a denial letter was sent to Mr. D'Andrea, he requested staff make further inquiries. Ms. Bhatia referred to excerpts from an additional letter, included in the agenda packet, that was submitted by Ms. Gunderson. She drew attention to the excerpt stating, "part time, 3/5 times base, from 8/23/00 to 6/01/01 (9 months)". Ms. Bhatia explained the service performed under this was less than 5 months because his tenure ended in January of 2001 and he started with DWP on January 8th of 2001. She informed the Board that all of the supporting documentation was included in the Board agenda packet, adding the Plan requires full-time employment at a minimum of 6 continuous months.

Mr. Michael D'Andrea approached the Board table.

President Romero recognized Mr. D'Andrea.

Mr. D'Andrea described his case as unusual and gave an overview of his employment background. He stated before starting with DWP in January of 2001 he was an adjunct professor in humanities at numerous colleges and universities in the Los Angeles area. He added the overwhelming majority of this time was part-time, but one academic year (fall 99'semester and spring 00') at Cal State Long Beach he was teaching a full load, and he is therefore requesting the Board allow him to purchase OGS. He clarified the time period Ms. Gunderson is referring to is of a different period, and he then submitted a supporting document confirming his claim.

Mr. D'Andrea informed the Board that the Retirement Office denied his request to buy OGS twice because the Plan does not specifically allow for consideration of work that is fully equivalent to but not classified as full time. He expressed he feels there is a basic incompatibility between the way the universities classify adjunct faculty work and the Department's OGS full-time requirement. He stated, while the Retirement Office did ultimately understand the extenuating circumstances behind the practical classification, they were powerless to act upon it. Therefore, he has come before the Board to provided the necessary information so they can decide if it is appropriate to exercise discretion in this matter.

Mr. Vazquez inquired for what period of time did Mr. D'Andrea wish to purchase OGS. Mr. D'Andrea responded about nine and a half months. Mr. Vazquez inquired if any exceptions to this circumstance had been made in the past. Ms. Bhatia stated she did not know, adding that the Plan has a general guideline which speaks of a minimum of six months of full-time employment, but not equivalents. Ms. Calvache indicated this type of issue had occurred in the past and the Retirement Office has had a past practice in this type of circumstance. Ms. Bhatia requested an example of this type of issue that had occurred in the past. Ms. Calvache responded Tom Harrington. Ms. Bhatia clarified Mr.

Harrington was not a teacher. Ms. Rubalcava further clarified Mr. Harrington did buy back his OGS, but in terms of an example of a teacher classified part-time but teaching a full time class load, Mr. D'Andrea would be the test case. She added this is why the issue is being brought to the Board.

President Romero expressed he did not feel Mr. D'Andrea's request was unreasonable and would like to entertain a motion to approve it. Mr. Moore inquired if Mr. D'Andrea's request was a matter of interpreting the Plan, because if it were a matter of changing the Plan the Board should not approve the request.

President Romero concluded that there was some gray area on this issue, but it was obvious to him that Mr. D'Andrea was not attempting to work the system; therefore he was siding with the employee. Mr. Moore expressed his concern for the type of precedent the Board is setting in terms of other types of exposure this may lead to in purchasing OGS. Ms. Bhatia responded decisions would have to be made on a case-by-case basis.

Mr. Vazquez moved the approval of Mr. D'Andrea's request to purchase Other Governmental Service for the academic years 1999-2000. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Mr. D'Andrea thanked the Board and left the meeting.

2. Resolution Authorizing Investment Manager to Manage the Investments in the Disability and Death Benefit Funds Under a Commingled Fund Strategy

President Romero stated this item would be tabled until after the interviews were conducted, see page 24. The interviews were conducted next.

3. Interviews and possible selection of an Investment Management Firm or Firms (From those responding to the Plan's Request for Proposal – Core Fixed Income Managers):

a. T. Rowe Price

Messrs. L. Kenneth Brooks, Senior Sales Executive – Institutional Sales Executive, Todd J. Henry, CFA, Vice President – Portfolio Specialist: Non-U.S. Equities and Emerging Markets, and Mark Edwards, Vice President – Portfolio Manager: Emerging Markets Equity Strategy of T. Rowe Price International, Inc. approached the table.

President Romero recognized the representatives from T. Rowe Price International, Inc.

Mr. Brooks gave a brief overview of T. Rowe Price indicating the firm currently has substantial investments in the Equity markets and 10% in the non-U.S. Equity markets. He stated T. Rowe Price is an independent investment organization with substantial employee ownership with organizational and professional stability. He emphasized that the firm's major commitment is proprietary fundamental research. Mr. Brooks pointed out that the firm maintains a risk-adjusted performance. He indicated that the firm's long-term commitment is to manage institutional portfolios and hope to stay a globally diversified, balanced, and financially strong organization.

Mr. Henry indicated that the firm's emerging markets equity advantages were: 1) the firm has been investing in emerging markets equities since 1985 – 2) they have a four-member team with regional responsibilities (the team averages 11 years experience at T. Rowe Price); 3) the firm has deep on-site emerging markets company research; 4) the team focuses on bottoms-up emphasis with top-down awareness; 5) the team focuses on high-quality, sustainable growth; and 6) the firm has strong relative and risk-adjusted results in positive and negative market environments.

Mr. Henry expressed to the Board the firm's management practices a team approach philosophy. He emphasized that there is a lot of experience on the team, but importantly, the majority of the team's experience has been in investing in the emerging markets. He indicated that Mr. Chris Alderson (London) is the lead manager, but each manager is responsible for covering his or her specific region. Mr. Moore inquired if the team only invests in the Emerging Markets. Mr. Henry replied the portfolio team works only on Emerging Markets. He mentioned that the advantage to the structure of the team is that the managers know their regions and know their stocks exceptionally well.

Mr. Henry reemphasized that fundamental research is the foundation and key of the team's work. He stated that the portfolio managers and analysts visit about 1,000 companies a year, which is made easier by the team's close proximity to the companies and the markets into which the team invests. He indicated that the four main offices are Buenos Aires, London, Hong Kong and Singapore from which they conduct their emerging market equity research.

Mr. Edwards discussed the firm's stock specific factors that drive the emerging markets equity returns. He stated the company-specific factors – country, sector, and company, are dominant drivers of emerging markets equity prices. He demonstrated that the team's research analysis shows that almost 50% of returns come from the company factors. He gave the example of India's elections causing the Indian market to drop 17% the following day, as a country factor. He stated that the structure of T. Rowe price International Emerging Markets investment team consists of a four-member regional portfolio management team, regional analysts, and global sector analysts. Mr. Edwards indicated the team looks for a sustainable and superior cash flow growth relative to the overall market, an ability to reinvest future cash flows at rates of return above cost of capital, and a stock price valuation that underestimates the company's long-term growth prospects.

Mr. Edwards described the firm’s investment process. He began by explaining that there are approximately 1,000 companies in the Emerging Markets Equity universe. He stated that 80% of the process is spent on rigorous fundamental research, both from the regional research resources and the sector research resources. He continued to describe the process stating that 20% of the process is spent on the macro health of the countries. He indicated that the key team in the process is the four-member portfolio management team, which is a team that has been working together for years and the key decision making is made by these regional experts, so each person on the team is an expert in that particular region and has a really deep local knowledge of the stocks and the countries. He continued that these “regional experts” end up with a broadly diversified portfolio of 100 to 175 stocks, then the team members, along with the Risk Controls and Monitoring Lead Manager, Chris Alderson, all sit down and communicate to discuss if the portfolio makes sense. He emphasized that this stage is an important overlay of risk control and monitoring.

Mr. Edwards emphasized also that communication between the regional experts is important and vital. He indicated the team communicates, daily, weekly, monthly, quarterly, semiannually, and annually.

Mr. Edwards briefly demonstrated the historical regional positions from 1995 to 2004 and demonstrated that the portfolio characteristics as of March 31, 2004, compared to the benchmark, were good and held up well against the benchmark. He added T. Rowe Price added value both in up markets and in down markets. He emphasized that growth outperformed value in the 1990s; however in the last three years value has outperformed growth.

Mr. Brooks concluded that T. Rowe Price has proven its investment philosophy and investment process, the portfolio management team maintains stability, the firm has a substantial corporate commitment to non-U.S. company research and investing, and the firm has a dedicated client service team and continues to maintain a stable, independent organization.

Mr. Moore requested T. Rowe Price to clarify the graph on page 23 that illustrates the firm’s relative performance to the index. Mr. Henry explained that the blue line is the difference in performance between the Emerging Markets growth component of the index versus the Emerging Markets value component of the index; so when the line is flat, there is no difference in the performance between growth and value; when blue line is going up, it indicates growth stocks were outperforming value; and when the blue line goes down, it indicates value is outperforming growth. He stated that, in the middle of the year 2000, there was a strong period of outperformance by value. He explained further that the orange line is the performance of the firm’s portfolio versus the broad benchmark; so as the line goes up, the team is adding excess return versus the broad benchmark. He continued to explain that, when the orange line is flat, the team has been keeping pace with the benchmark. He pointed out the team has added quite a bit of value versus the broad benchmark when growth did well. He mentioned the team shifted emphasis from growth to value as it became less enthusiastic about the growth stocks toward the end of 1999 and 2000, which meant the team was able to hang on to the previous outperformance and not give back performance in the environment in the last three years.

Mr. Moore asked T. Rowe Price if PCA's information was correct when it shows T. Rowe Price with an information ratio of –0.37 for stock selection over the course of a 5-year period. Mr. Rue stated one needs to know where that number came from and explained it is a performance base and a style base number, so it may not be a perfect model. Mr. Henry clarified that attribution in Emerging Markets can be difficult because there are so many different factors where returns can come from. He asked the Board to turn to page 38, tab 3, and explained the graph on that page takes a look at 5-years through the end of March, indicating where the firm's added value comes from, and the graph shows the team adding a little more than 400 basis points in outperformance versus the benchmark. He continued to explain the bulk of that value added is in stock selection at about 400 basis points and a little bit from the country weights.

President Romero asked if T. Rowe Price's number of holdings average 165. Mr. Edwards replied in the affirmative. President Romero asked if the turnover was 84%. Mr. Edwards stated it was more towards 70%. President Romero inquired if the fees were negotiable. Mr. Brooks replied in the affirmative. President Romero inquired how T. Rowe Price involves minorities in the International Market brokerage service. Mr. Brooks replied that in the International Markets it tends to be a little more difficult because there are fewer firms out there that have those capabilities, unlike the domestic side. He explained that, on domestic side, T. Rowe Price has made a commitment and has worked with 20-25 minority/women owned brokerage firms in the past several years. He stated that last year the firm did about half a million dollars in commissions with those firms. He emphasized that the firm is striving to increase that level of participation.

Mr. Vazquez inquired what T. Rowe Price did to reposition itself prior to and after the elections in India. Mr. Edwards replied his colleague was selling down their Indian positions at the end of last year quite aggressively. He explained his colleague was a little bit early, selling the Indian positions in November and December; however, in hindsight, it was perfect timing. He emphasized the team is now looking to buy into market weakness because they think that these companies in the longer term have a good chance for strong growth; so the team is not negative on India, but the team believes the market will fall for a while this summer, but longer term, the team thinks it will turn up very good investment opportunities. Mr. Vazquez asked where the portfolio management team was located. Mr. Edwards stated he was located in Hong Kong, Mr. Dydasco is located in Singapore, and Mr. Pangaro was in Buenos Aires. Mr. Vazquez asked what the team does to coordinate these team members in different time zones, in terms of unified management of this portfolio. Mr. Edwards replied that every Wednesday night Hong Kong time the team holds a conference call and that is when the whole team goes over the portfolio and discusses ideas. He emphasized that communication was very important to the team's success and pointed out that they communicate daily, and have market reviews monthly, quarterly semiannually, and annually. Mr. Henry added that communication is extraordinarily high and it gives people on the team the understanding and idea of other team member's markets so they can make that relative assessment when they need to.

Ms. Bhatia asked T. Rowe Price to explain the pending litigation noted on the RFP. She noted it was a class action lawsuit against T. Rowe Price. Mr. Brooks explained that he suspects that the class action lawsuit has to do with the mutual fund, not the institutional side, but he will provide the Board with that information.

President Romero thanked T. Rowe Price for their presentation. The representatives of T. Rowe Price Company thanked the Board and left.

b. State Street Global Advisors/ Rexiter Capital Management Limited

Ms. Susan C. Raynes, Managing Director of SSgA's West Coast Operations, Ms. Helena Coles, CFA, and Director and Senior Fund Manager, Chartered Financial Analyst, and Mr. Murray Davey, Director and Senior Fund Manager approached the table.

President Romero recognized the representatives from SSgA and Rexiter Capital Management Limited.

Ms. Raynes introduced her colleagues and gave a brief description of State Street Global Advisors (SSgA) and Rexiter Capital Management Limited (Rexiter). She explained the working relationship between SSgA and Rexiter. She stated that SSgA has a series of companies called Global Alliance with their managers who are highly specialized, that round out the product offerings to SSgA's client base, and they have a shared ownership structure which ensures separate identities for each of the companies and maintains a boutique type of investment environment, but it also capitalizes on the resources of SSgA. She continued to state that from the point of view of trading and systems and the advantages that a large company has, Rexiter can capitalize on those benefits and still maintain the boutique specialists manager structure that it has had for quite some time, which gives it an advantage. Ms. Raynes informed the Board that SSgA holds about $1.2 trillion in assets under management, including Emerging Markets. She mentioned a few of their clients on the west coast to point out they have a long relationship with a number of west coast public funds, as well as public funds around the country.

Ms. Raynes spoke about Rexiter's investment team and discussed their investment process as well as pointed out Rexiter's results from the team's investment process. She stated that Rexiter is a team that has been together for many years since 1992 and there is very little change in the team of managers. She emphasized that there have not been significant turnovers within the core group of professionals in the last four years. Ms. Raynes described the investment process as a fundamental bottom up stock picking strategy, and they have had consistency of returns, for over 10 years.

Mr. Moore asked the representatives to explain the organizational relationship of SSgA with Rexiter. Mr. Davey replied that Rexiter has three separate owners, SSgA, ABP, and its staff. (ABP is a Dutch company - 2nd largest pension fund in the world.) He explained that SSgA and ABP have a joint venture and own 75% of Rexiter, and the Rexiter staff owns the other 25%. He further explained, from an operational structure, Rexiter is totally independent from SSgA and ABP on all investment matters – they act as a separate company. He stated, today, the Rexiter staff makes all the necessary decisions.

Mr. Davey discussed the firm's investment team. He stated the company and all the investment managers on the Emerging Markets team are based in London, and they also have a branch in Seoul, Korea. He mentioned they have a little over $1 billion dollars in assets and the company is bottom up, active, and fundamental. He emphasized the team specializes in Emerging Markets and does not work on other markets. He added they have no intention of investing in any other asset category. Mr. Davey stated the team's main priority in the business is to keep the team together. He reassured the Board that the Rexiter team is a good team, they work together well, and they are very experienced as a group. Afterwards, Mr. Davey introduced the portfolio managers individually and stated a few important facts that help contribute to the team's success.

Mr. Davey next discussed the team's investment philosophy of practicing bottom up, fundamental research, which is an effective way to exploit the market's inefficiencies. He stated the investment team only buys companies it believes in and they never buy a company just because it is a large part of the index. He added the firm believes in a diversified portfolio – diversified at the country and sector level, but concentrated at the stock level. Mr. Davey then talked about the team's investment objectives as follows: 1) to provide exposure to the asset class; 2) to outperform in both up and down markets; and 3) to maintain the firm's historic tracking error stable at 5-6%.

Ms. Coles spoke about the factors to select tactical country allocation. She stated when it comes to building a portfolio, the investment team looks at macroeconomic factors such as economic growth and specific currency risks. She continued to state the investment team also considers the Equity Market factors like valuation, political risk, earnings momentum, recent relative performance, the funds flow, and stocks. However, she stated, it comes back to the stock factors, for instance the number of high conviction stocks, fundamental attractiveness, and liquidity. She explained when building the portfolio, the investment team thinks that all three elements are symbiotic and come together at the same time.

Ms. Coles explained the investment team's process of stock selection starts by defining its stock universe. She added the investment team takes all the companies that exist in Emerging Markets and applies a liquidity screen ($500 million U.S. dollars). She further added, after applying the liquidity screen, there will be about 500 companies passing this screen and that defines the Rexiter universe, which translates into about 50-60 companies being closely followed by each individual portfolio manager. Ms. Coles explained that these 500 companies, are researched thoroughly over time. She stated the investment team visits with these companies at least once a year, and a lot of time is spent because the investment team believes that there is a lot of value added from doing the extra work, even in the well – covered companies. Ms. Coles mentioned the investment team focuses on a concentrated stock portfolio where there are a limited number of stocks meeting their criteria, which is based on quality rather than quantity. She added the investment team believes a 70-90 stock portfolio allows them to keep the best investments while achieving efficient diversification. She further added the investment team, especially fund managers, have an average of 13 years investment experience, which is Rexiter's key advantage.

Ms. Coles explained the investment team's portfolio construction and stated the rules designed to ensure diversification and encourage contrarianism. She stated once a stock has fallen more than 15% in any one market, the team has a sell discipline to either return the stock back to its original unit size, or to get rid of the stock altogether.

Mr. Davey stated the key with any investment process is whether it works. He informed the Board of Rexiter's performance overview over the last 5 years as of December 31, 2003. He indicated Rexiter has had 14 quarters of out-performance, 6 quarters of under-performance, 1 quarter where they were 1.4% below the index, 10 quarters where they were above the index by 1% or more, and they have no annualized performance where they have been behind the benchmark. He reiterated this was the type of performance which Rexiter has achieved using this investment process. Mr. Davey emphasized he is confident that the process is still valid and the people responsible for it are going to stay together and the continuity of the structure will be maintained.

President Romero explained to the representatives of SSgA the waiver of subrogation. Ms. Raynes explained the trading process for their commingled fund. She stated the compliance and notification procedures in the commingled fund put the onus on SSgA for any sort of error and relieves the client of that risk, which is not the case on a separate account. She stated, in a commingled fund, SSgA/Rexiter bears the entire burden of any problem with the trade that results in loss, which is not the case in a separate account.

President Romero inquired what the differences were in fees for the commingled versus the separate account. Ms. Raynes replied they had several sets of fees, which are in the response to the RFP. She stated they have a standard fee structure, which has a higher basis point charge. She added, however, it is negotiable depending on the size of the allocation. President Romero inquired if the fee is different in the RFP. Ms. Raynes explained the fee that was in the revised RFP is the same fee that was presented about two years ago. SSgA and Rexiter put in a slightly higher than usual fee schedule in the RFP because they understood the allocation of the individual managers would be smaller. President Romero asked what the fee was. Mr. Davey answered stating it was 85 basis points and it is negotiable. President Romero asked if the turnover on average for the last quarter was about 73%. Mr. Davey stated the turnover on average in the last five years has been about 50%.

President Romero asked if there is a higher concentration in Latin America in the index. Mr. Davey replied the index is about 55% Asia. President Romero referred to a matrix that shows more concentration in Latin America. Mr. Davey explained they are concentrated more in Latin American than some of their competitors, partly because of the way their process works. He added when they are building the portfolio, they do not take into account the index weightings. He further added their neutral positions are fixed and that will tend to make them underweight in the large markets and overweight in the smallest markets. President Romero stated that SSgA and Rexiter have one portfolio in Latin America as opposed to four in Asia and asked the representatives to explain this. Ms. Coles explained in the stock universe, the 500 stocks translate into 50-60 stocks for each manager, and a manager's capacity and the amount of time they have to spend on stocks is taken into consideration. She added the vast majority of the universe is located in Asia, and Asia therefore has the heaviest weighting by far of stocks. She further added the Latin America universe, since 1997 when they started, has been consistently shrinking.

Mr. Moore inquired where SSgA and Rexiter stood in respect to the weighting among different countries. Mr. Davey responded by giving an example. He stated if you take a market that normally would have a 6.7% weighting and the investment team likes that market, they do not have to stay at 6.7%, and they can go up to 15%. There are also factors to consider like political and currency risks, which determine how much money to put into the market.

Mr. Rue of PCA asked the representatives to explain how they come up with weights. Mr. Davey responded stating they split all the markets into two parts, the bottom third of them by size make up a third of the index and the top half by size of the company is the other two-thirds. He stated, at the moment, the way this works is there are 10 companies in the large tier and 10 companies in the bottom tier, so the two-thirds of the index divided by 10 is 6.7%. Mr. Rue inquired further why the investment team weights them equally versus the market. Mr. Davey explained that it diversifies the portfolio in what they consider to be a real sense. He stated this portfolio will have different exposure to many different markets at one time.
President Romero thanked SSgA and Rexiter for their presentation. The representatives of SSgA and Rexiter thanked the Board and left.

President Romero called for a brief recess at 10:52 a.m.

[Recess]

The Board meeting reconvened at 10:59 a.m.

c. The Boston Company

Mr. Robert Harkins, CFA and Vice President of Client Services and Business Development, Ms. Madelyn M. Murray, Vice President and Associate Director of Mellon Institute Asset Management, and Mr. D. Kirk Henry, CFA, Executive Vice President and Director of International Equities of The Boston Company Asset Management, LLC. approached the table.

President Romero recognized the representatives from The Boston Company.

Mr. Harkins briefly introduced himself and his colleagues. He began to give an overview of the firm stating they have been business for 34 years; for the past 10 years they have been the subsidiary of Mellon Financial Company (Mellon), and while owned by Mellon, they operate independently with regard to investment philosophy and process. He added, as of March 31, 2004, the firm closed out with just under $39.3 billion in assets under management and just under $20 billion were assets managed by the team that is lead by Mr. Henry. He also mentioned a few clients from the representative client list, indicating the firm has a total of more than 450 clients; of these approximately 150 are clients of the international team, and the client base is primarily institutional. He gave examples of American Airlines, Bombardier Trust – Canada, Motorola, City of Detroit, State of Pennsylvania, and LACERS (Los Angeles City Employees Retirement Systems). Mr. Harkins also discussed results of performance measures in the Emerging Markets, which showed figures year-to-date (March 31, 2004) and annualized since inception. He indicated for the three years, the firm was over 800 basis points ahead of the index and for the five years, they were over 500 basis points ahead of the index. He also pointed out the long-term results since inception (July 1, 1995) is 11.3% - well in excess of the 7-9% that most public plans, such as the Retirement Board, need to be generating in their portfolios in the long run to be meeting their liabilities. He revealed the firm was lagging a little bit in the first quarter, but as of now, the end of May, the firm is 88 basis points ahead of the index. Mr. Harkins next demonstrated how the firm compares to other investment firms in the Emerging Markets universe. He referred to a scattergram, which charts The Boston Company's return and how they varied versus both the index and the median manager. He indicated that the firm's returns have been higher than the index or the median manager. Mr. Harkins also referred to an information ratio graph, which shows the firm generating very strong risk adjusted returns. He stated in the three years ending March 2004, the firm's information ratio of 1.27 puts the firm in the top 14 percentile of all managers and when looking out to longer terms – 4, 5, 6, 7, 8 years, the information ratio has been even higher and has placed them in the top 1 percentile of all managers. He informed the Board this universe that they are being compared to is produced by an independent third party.

Mr. Moore asked the representatives to explain the reason for the decline from the 1 percentile performance in the last three years. Mr. Harkins explained the reason he focused on the three years is that when the information ratio is calculated, the denominator is in terms that are in units of standard deviation, and if you are looking at less than three years, the statistical validity of the measure is questionable. Mr. Henry explained it further stating they do well during the longer periods of time, whereas the shorter periods can be a little more volatile and not as positive.

Mr. Harkins briefly demonstrated the research and management team run by Mr. Henry. He stated the team consists of 15 dedicated members, 5 portfolio managers, 6 research analysts, and 3 traders. He noted the team is very experienced and led by two portfolio managers, each having more than 23 years of experience. He also noted all the members have excellent financial analytical skills and very good academic qualifications. He pointed out, aside from an announced retirement from the team two years ago, the firm has never had an investment professional quit the team.

Mr. Vazquez asked if the investment team was located in Boston, Massachusetts. Mr. Henry confirmed they are all located in Boston.

Mr. Henry next discussed the investment philosophy and process. He stated the investment team believes successful international investing is achieved through a program that is: 1) value oriented, where the team combines traditional measures of value with business momentum, 2) research driven, where the team verifies quantitative analysis with bottom-up fundamental security analysis; and 3) risk-averse, where the team believes preservation of capital is the key to strong long-term performance. He explained when it comes to value, the team looks to buy companies that have good valuation characteristics, they look at price to earnings, price to book, price to cash flow as the primary measures of value. He added they are also looking at securities that have good valuation characteristics compared to their country and their sector. He further added the team is looking to buy a business catalyst that will get the full potential of the valuation in timely fashion. Mr. Henry stated in terms of being research-driven, it is the team's stock selection that determines whether they are overweighted in the country/sector or underweighted in the country/sector. He added their philosophy is risk-averse, where they really control risk. He gave an example of the information ratio, where it demonstrates how they control declining markets. He added the team sticks to high quality companies because Emerging Markets are very volatile, and the team wants to buy companies that they know will be around in the currency devaluations or political upheavals.

Mr. Henry explained the process of how the investment team selects stocks. He stated the investment team buys stocks that exhibit good value characteristics, strong business fundamentals, and positive business momentum. He elaborated stating for good value characteristics, the investment team looks at price to earnings, price to book, price to cash flow. He continued to elaborate that the team looks for strong business fundamentals in a company with strong management, a good balance sheet, good product(s), good market share position, strong operating margins and competitive advantage. He also pointed out the business momentum that he refers to is a catalyst in improving sales with better pricing or the improvement of earnings due to a shift in the cost of goods sold. He added overall they are looking for good valuations with stronger than average earnings. Mr. Henry provided a case study of a purchase in December 2001, Hyundai Motor. He explained how the stock was selected based on the three factors he mentioned.

Mr. Vazquez inquired, with regard to the Hyundai Motor stock, do you have a target so when it reaches that price you sell it. Mr. Henry explained the team has a very strict sell discipline. He added it is important to buy the stock at the right time, but it is just as important to sell it at the right time. He explained that the stock doubled in value and they sold half the position. He further explained after the team sold half of the shares, the stock then fell back to the original price and the team bought it back and it went up again so the team trimmed about half of it again. Mr. Henry emphasized the team does not make exceptions and they do not fall in love with any company – they move on and deploy those proceeds into other valued securities the team thinks have more opportunities. He reiterated the sell decision is made when a stock exhibits full valuation, the business health is deteriorating, or there is a negative business momentum.

Mr. Henry briefly went over the investment team's investment process. He stated the investment process involves screening companies and generating ideas; and the bulk of the time of the investment professionals is spent traveling overseas, visiting and talking with companies, doing research on those companies, and making decisions for the portfolio.

Mr. Henry stated the investment team feels that risk controls are important, and therefore they are applied to ensure a diversified portfolio. He indicated one of their risk controls to ensure country diversification is to stay at a minimum of 15 countries, including the 3 or 5 largest. He stated, generally, no one country will represent more than the greater of 20% of the portfolio or 5% above the index weight. He continued, as far as sector diversification, typically, they should be no more than 10% above the index weight. He added, generally, there will be a 3% maximum invested in any one stock. He also stated the investment team seeks to remain fully invested at all times and therefore maintains a modest cash position (typically less than 5%). Mr. Henry pointed out every holding is reviewed weekly to ensure a sell discipline. He added, generally, portfolios look alike, and portfolios perform alike.

Mr. Henry went on to describe the portfolio country weightings. He stated the portfolio was well diversified by region, and about half the assets are in Asia, more than in the European, Middle Eastern/African and Latin American countries. He commented China was underweighted. He also added there is a strong overweight in India. He thinks that the critical situation in India is still very well intact, and the economy still looks very good. He also commented the investment team finds attractive opportunities in the South African economy because business fundamentals are improving and a lot of companies are improving their profitability and growing in earnings.

Mr. Henry stated emerging markets still look attractive, about 11x earnings, under 1.5x book, so in terms of evaluation, the score is still positive in the Emerging Markets as an asset class. He added the sector weightings of the portfolio are well diversified. He indicated the team was a little overweighted in the consumer staples and underweighted in the materials area.

Mr. Vazquez inquired what is the average number of stocks the investment team holds and what is the average turnover. Mr. Henry replied they have about 140 names in the portfolio and the turnover has ranged over the last nine years from 40-80%.

Mr. Vazquez asked what is the total portfolio size for the Emerging Markets. Mr. Harkins responded in this strategy of emerging markets, as of March 31, 2004, they have $7.43 billion. He added looking at the entire Emerging Markets universe as of March, it has a market capitalization of about $2.8 trillion and if you adjusted that for the free flow that is available to foreign investors, like The Boston Company, it is about $1.9 trillion.

Mr. Moore commented, based on the chart showing the balance between regions, the team is fairly close to the benchmark, and asked if they purposely try to keep it relatively balanced against the index in terms of regional proportions. Mr. Murray replied historically the team has been within 3 or 4 percentage points by region, but the team does not make big regional bets. Mr. Moore asked for clarification on the cash held. Mr. Murray clarified stating they have a guideline that prevents more than 10% of cash – when their client guidelines say 5%, usually they have 3% cash. Mr. Rue clarified the average cash ranges between 1-6%.

Ms. Murray pointed out that Mellon is strongly committed to diversity, and Mr. Marty McGwinn, the chairman of Mellon, is also the chairperson of the diversity council. She added Mellon is very serious in terms of their goals and efforts in this regard, and they have instituted several programs both internally and externally to further diversity because they feel that in doing good, they also do well for the company and the community.

Ms. Murray informed the Board that Mellon gives over $25 million annually to community based organizations across the country including Los Angeles based community organizations, one of which she is a founding member, which is the Los Angeles Community Financial Resource Center in South L.A., and it provides access to dollars in capital for minority owned businesses. In the area of minority business contracts, she explained they have a supplier diversity council within Mellon, and that supplier diversity council actively promotes women and minority business development. She added, internally, they sponsor a mentoring program, outreach and development of their staff, and ongoing diversity training workshops

President Romero inquired what was the size of the mandate The Boston Company could receive from the Retirement Board. Mr. Rue replied it was about $40-50 million. President Romero requested The Boston Company representatives to give him a figure of basis points for that size mandate. Mr. Harkins stated the fees that were recorded in the RFP were for a minimum initial funding of $75 million and there is a chance he could bring it down to $50 million upon approval of management. He continued to state that if he were not able to do so, he expects fees to be 5 basis points higher. Mr. Rue inquired what their fees were for a commingled fund. Mr. Harkins responded stating the pricing is exactly the same, whether the Board were to choose a separate or a commingled fund.

Mr. Moore asked if there was any overlap with respect to the personnel involved in the different investment mandates. Mr. Henry explained that in the last nine years they have had an integrated team where those individuals are not just looking at International Securities but also the Emerging Markets Securities. He continued to explain that each individual has a responsibility to each area as well as to the sector coverage. He pointed out this was one of the reasons why the firm is able to add value to both portfolios because they can see discrepancies and evaluations from one portfolio to the other.

President Romero thanked The Boston Company for their presentation. The representatives of The Boston Company thanked the Board and left.

d. Baillie Gifford

Ms. Larysa M. Bemko, Director of Marketing and Mr. Gerald Smith Head of Department Emerging Markets Equities of Baillie Gifford & Company approached the table.

President Romero recognized the representatives from Baillie Gifford & Company.

Ms. Bemko began by giving an overview of the company and explaining her and Mr. Smith's responsibilities within the company. She pointed out Baillie Gifford & Company is a well-established manager with a long record of success, consisting of 27 partners working full time in the business. She stated this structure provides independence and control over the business, a tremendous amount of experience, and employee motivation.

Ms. Bemko expressed Baillie adds value in their investment process through fundamental analysis and stock selection. She reported, to date, the firm runs approximately $49 billion of total firm assets for their clients around the world, $12.2 billion of that for clients in North America, and of that $2.4 billion for 9 emerging markets clients. Mr. Vazquez noted there was an asterisk by the $2.4 billion for 9 emerging market clients and inquired what it referred to. Ms. Bemko responded that the $2.4 billion is invested in their All Cap Emerging Market strategy. Mr. Vazquez inquired if DWP would be in this strategy. Ms. Bemko responded that Baillie is proposing DWP be part of their leading company's strategy, which is very similar. She explained the two key differences were the number of holdings in the portfolio and in the market capitalization. Mr. Vazquez inquired about the size of the mandate in the leading company strategy. Ms. Bemko responded this was a new strategy the firm recently started marketing and there were currently no assets under management. Mr. Vazquez inquired, in terms of performance indicators from Baillie's All Cap, what do they anticipate for this new mandate. Ms. Bemko responded that the firm performed some fairly extensive back testing and attribution analysis prior to initiating the new leading company strategy. She stated what they found when looking back over a five-year plus period, if one broke down the contributions to the portfolio based on market capitalization, they were very consistent and equally contributing in the small, mid, and large cap area. She added it was initially counterintuitive because one would think small cap would get the most in terms of a return. Ms. Bemko stated, based on Baillie's philosophy and strategy, they found that their firm performs well in the mid and large cap areas. She added this led them to the conclusion that they could continue to provide very good emerging market strategy and long-term results, have the same benchmark, outperformance criteria, and a similar tracking error.

Ms. Bemko addressed Baillie's emerging markets team and their methodology. She stated the firm operates as a team so that no one client is managed by a single person for all of their investment decisions. She added, this ensures a steady flow of information and ideas from all of their analysts and portfolio managers.

Mr. Smith began detailing the investment process and listed globalization, internal improvements, and ownership of scarce resources, as the factors Baillie Gifford believes will drive growth. Mr. Smith emphasized there was no getting away from the fact that one has to buy the right companies. He stated the firm's investment philosophy was that share prices follow fundamentals, company analysis is more useful than economic data, and companies that grow their earnings and cash flows faster than average outperform the market. Mr. Smith explained Baillie's key factors in research were divided into two parts, potential (industry background and competitive advantage) and delivery (financial strength and management attitudes).

Ms. Bemko described Baillie Gifford's portfolio construction as a bottoms up process with a focus on growth stocks. She elaborated by stating each of the team members put together a list of favorite stocks with the greatest advantages, which then moves forward to a team review and very rigorous debate about the advantages of one company over another, and from this the portfolio is constructed. She added that once a month there is an investment policy committee meeting, where new ideas are developed.

Ms. Bemko reported, in terms of risk controls, the firm has a dedicated risk team reporting directly to the chief investment officer, who in turn does the portfolio analysis to try and understand the predicted tracking error, attribution analysis, and more about the total composition of the portfolio. She also stated that Baillie also has guidelines for constructing the portfolio with respect to country and sector. She indicated the result of this is a portfolio with an above average earnings growth, above average earnings share price, and return on equity with no value penalty.

Ms. Bemko concluded by expressing Baillie Gifford has a unique partnership structure providing a tremendous amount of stability and continuity, many years of experience in the emerging markets area, and a focus on providing good investment returns and excellent client service.

President Romero noted in Baillie's RFP it states that since they are based in Edinburgh, some of DWP's requirements are not applicable. He then inquired which specific requirements did they feel did not apply. Ms. Smith responded some of the insurance requirements, in terms of car rentals and things of that nature. Ms. Rubalcava clarified the City Attorney's office has been able to work these types of issues out with companies based outside of the United States.

President Romero inquired what Baillie's fee schedule was. Ms. Bemko responded that Baillie feels it is very important to treat each one of their clients in the same way; therefore they do not generally negotiate their fee schedule. Ms. Bemko said they try to ensure everyone pays on an equal fee schedule based on the size of the mandate. President Romero commented, given the fact this may be a $40 to $50 million mandate, was the schedule in the RFP submitted consistent with that size mandate. President Romero noted it stated 80 basis points and inquired if this was negotiable. Ms. Bemko responded in the negative.

President Romero inquired about Baillie's turnover rate. Ms. Smith responded their turnover was approximately 50%.

Mr. Vazquez inquired, with regard to sell decisions, did Baillie base such decisions on targets set for each stock. Mr. Smith responded, if a stock goes up and they still like it for the longer terms, they will hold on to it; but if they think that the story has really unwound and the reason the stock was bought is no longer in place, then they will sell it.

President Romero thanked the representatives of Baillie Gifford & Company for their presentation. The representatives of Baillie Gifford & Company thanked the Board and left.

President Romero called for a recess at 11:55 a.m.

[Recess]

The meeting reconvened at 12:35 p.m.

e. Marvin & Palmer Associates

Mr. Jon A. Stiklorius, Marketing and Client Service and Mr. Terry Mason, Sr. Vice President Portfolio Manager of Marvin & Palmer Associates, INC. approached the table.

President Romero recognized the representatives from Marvin & Palmer Associates.

Mr. Stiklorius introduced himself and Mr. Mason and explained Marvin & Palmer's objective. He pointed out the three key elements that are responsible for the firm's good performance and success. He listed them as a focused business plan, a team management approach, and their investment process.

Mr. Stiklorius reported the firm has had remarkable stability and cohesion, losing only one employee over the last 16 years. He emphasized the importance of this was the continuity of the investment process with the same employees, using the same process, and giving the same good results.

Mr. Stiklorius indicated Marvin & Palmer was particularly good at figuring out what countries and what industries are going to outperform and then buy large cap quality growth stocks.

Mr. Mason began by giving a brief background of himself and then expounded on the firm's team approach. He stated the firm has eight portfolio managers, each of whom is an analyst/portfolio manager, has broad geographic and sector responsibilities, and manages a segment of each client's portfolio. He stated Marvin & Palmer's goal was to put together continuity, yet give the client diversification.

Mr. Mason described Marvin & Palmer's investment philosophy, which is a process broken down into the three steps of screening, fundamental analysis, and portfolio construction. He explained the screening of country, sector, and company was based on relative price. Mr. Mason began outlining the firm's fundamental analysis process. He expressed in their applied research the managers look for franchise quality, management quality, balance sheet quality, and earnings per share growth.

Mr. Mason explained Marvin & Palmer's sell discipline, stating if a company deteriorates on a relative strength basis, or if the fundamentals change they will sell the stock. He then briefly outlined the firm's emerging markets equity performance pointing out they have outperformed other firms over time. He added in the up market they outperformed dramatically and in the down market they did not give gains back, all due to their very strict sell discipline.

Mr. Vazquez inquired what amount did Marvin & Palmer have under management in their emerging markets. Mr. Mason responded they currently manage a little over $1 billion that is direct emerging markets, however they run about $5 billion in non U.S.

Mr. Vazquez inquired what was the average number of stocks in the firm's portfolio. Mr. Mason responded usually about 75 to 95 stocks. Mr. Vazquez inquired what Marvin & Palmer's turnover was. Mr. Mason responded it depends on the environment, but under normal circumstances it would be approximately 110% to 120%.

Mr. Vazquez noted there were eight portfolio managers who are independent, and inquired what the firm does to allocate the assets within the portfolio among the various managers. Mr. Mason responded at the first investment meeting a decision is made based on whether or not to be heavier in Asia & Europe assets or lighter in Latin American & S. African assets and at that time they will transfer assets back between the groups.

Mr. Moore requested a better explanation of the relative price analysis. He expressed his understanding is that Marvin & Palmer is not one to stay in a stock when the market is not paying attention to it, even if the fundamentals are good. He added it was also his understanding that the firm prefers to wait until they see some price momentum before going in. Mr. Mason responded Mr. Moore was correct in his understanding. Mr. Moore inquired if he also understood correctly that Marvin & Palmer tends to focus more on growth rather than value. Mr. Moore noted their presentation materials show a price earning multiple that is fairly high and inquired if this was something that will fluctuate depending on the market. Mr. Mason responded the price and earnings levels vary from country to country, so it depends on where the firm's weightings are. Mr. Moore commented that Marvin & Palmer was fairly aggressive in terms of their regional weighting over time and currently underweighted in the Europe market. Mr. Mason agreed the firm is less involved in the European market because they are very cautions with regards to geopolitical factors.

President Romero noted in Marvin & Palmer's response to the RFP they had an issue regarding the errors and omissions insurance. Mr. Stiklorius responded the firm currently has $25 million in errors and omissions. President Romero expressed the Board was requesting an additional $25 million. Mr. Stiklorius responded this was not a problem. President Romero noted that the fee schedule submitted by the firm was 50 basis points, 5 basis points for a separate account, and an added 40 basis points for the additional insurance coverage, totaling about 100 basis points. Mr. Mason clarified that Marvin & Palmer would be more than willing to negotiate the fees.

President Romero commented there were some concerns regarding the firm meeting the requirements of the waiver of subrogation, and inquired if those problems still existed. Mr. Stiklorious responded there were no problems.

President Romero thanked the representatives of Marvin & Palmer Associates for their presentation. The representatives of Marvin & Palmer Associates thanked the Board and left.

f. Dimensional Fund Advisors

Mr. Rue explained that Dimensional Fund Advisors had recently met some of the qualifications and/or has solutions for meeting some of the qualifications postproduction of their booklets. He then handed out some new performance information with regards to DFA to the Board.

Mr. John Siciliano, Director of Global Institutional Services, Mr. Robert M. Fezekas, CFA, Portfolio Manager, Ms. Karen McGinley, CFA, Vice President & Portfolio Manager, and Mr. Damon Fisher, Vice President of Dimensional Fund Advisors (DFA) approached the table.

President Romero recognized the representatives from DFA.

Mr. Damon provided a brief background of the representatives and indicated there were eight additional international portfolio managers. He stated the firm was founded in 1981 and is an employee-owned organization whose focus has been to research and identify the distinct characteristics of asset classes around the world. Mr. Damon reported the firm currently manages over $53 billion, is headquartered in Santa Monica, and has investment offices in London and Sydney as well. He stated it was an equal opportunity employment firm, which translates in terms of their workforce composition.

Mr. Damon explained the firm's investment goal is to deliver reliable exposure to asset classes worldwide through a broadly diversified fashion and add value over conventional benchmarks. He stated their value added stems from their portfolio engineering as well as their opportunistic trading.

Mr. Damon referred to a chart breaking down DFA's assets under management. He reported the firm manages over $11 billion internationally and $2.7 billion in terms of emerging markets. He conveyed to the Board that the firm is process driven and all decisions are made at the investment committee level, and portfolio managers then implement those strategies.

Mr. Damon outlined DFA's performance against conventional benchmarks, stating the firm delivers consistent reliable exposure to asset classes around the world while delivering value-added results. He pointed out, since the inception of their emerging markets value fund, they have outperformed the benchmark by over 700 basis points.

Ms. McGinley described DFA's investment philosophy, stating it was very consistent and provides the basis for how the firm manages money in both the U.S. equity area and non-U.S. equity and emerging markets portfolios. She expressed the firm believes risk and return are related and there are three main dimensions of risk that explain most of the variation of returns, which are: 1) exposure to equity markets, 2) company size, and 3) company price. Ms. McGinley then reviewed the historical performance of small cap and value stocks around the world. She stated research has indicated investing in smaller cap in the emerging markets will give one a portfolio that has more powerful diversification versus an emerging markets portfolio that focuses primarily on very large company stocks.

Ms. McGinley described DFA's emerging markets strategies and reported the firm has been managing money in this market since 1993. She indicated each of the strategies was built on the specific core principles of targeting the factors generating expected returns, broad diversification across and within countries, a disciplined and transparent stock selection process, and low costs. Ms. McGinley reported the firm was currently invested in 16 emerging market countries and each is weighted primarily on its free-float adjusted market capitalization weight. She explained once those weights are determined, a cap is applied on any single country of 12.5% in order to limit single country exposure and provide broad country diversification.

Mr. Fezekas began discussing DFA's company selection process, stating the firm has a very transparent and rigorous set of criteria that companies need to meet before they are added to the portfolio. He expressed there were various categories of companies they feel do not represent the asset class well and are excluded from the portfolio. Mr. Fezekas reported the firm starts with a universe of approximately 1,600 companies after their value screening. He said companies that do not represent the asset class are those that are directly controlled by the government or have insufficient liquidity, leaving approximately 1,000 companies in the portfolio. Mr. Fezekas pointed out that China, India, and Russia were not included in the portfolio because DFA feels that, at present, they do not meet the country criteria due to weak property rights, foreign exchange controls, and insecure market mechanisms. He added India might be added by the end of the year.

Mr. Fezekas pointed out that trading costs can be quite high in emerging markets and DFA's structured strategy seeks to minimize those costs wherever they can. He stated, altogether, their transaction cost is roughly 50 basis points to 100 basis points, depending on the country. He explained the way to minimize these costs is by having a very low turnover, adding this portfolio's turnover is typically under 10% to 15% a year.

Mr. Fezekas expounded on the role of DFA's London and Sydney offices, stating a considerable amount of trading occurs in the two offices, which allows portfolio managers to monitor the trading in real time and gives them a 24-hour global trade index.

Mr. Fisher concluded by conveying DFA delivers consistent and reliable exposure to emerging markets by: 1) diversifying broadly across and within countries, 2) reducing risk through strict country selection, 3) a complimentary strategy to other emerging market managers, and 4) low management fees.

President Romero noted in DFA's presentation they indicated in the last 15 years value has outperformed growth. He then inquired what would the firm do should growth outperform in the next 15 years. Ms. McGinley responded that the firm sticks to their strategy in the portfolio and its mandate is to stay exposed to value stocks in the emerging markets.

President Romero also noted DFA has a large number of companies for the sake of diversification. Ms. McGinley responded their main objective was to minimize companies' specific risks, particularly in an area where the risk can be quite high. She stated the other objective is to help in terms of the trading because the firm feels it is an added benefit to the strategy to give exposure to the small and even micro-cap stocks because over long periods of time they tend to have higher returns.

President Romero inquired what their turnover was. Mr. Fezekas responded it was approximately 10% to 15% annually.

President Romero inquired what their fees were. Mr. Fisher responded the management fee on a commingled fund is 50 basis points. President Romero inquired, assuming it is a separate account, what would the fees be. Mr. Fisher responded the management fee would stay the same. He stated DFA's belief is what they are presenting is a commingled strategy. Mr. Fisher explained the firm is able to meet the waiver of subrogation with regards to the commingled strategy, but with the insurance requirements, they would have to run the same sort of strategy as a separate account. He expressed, while the characteristics would look the same, one would lose all the advantages of being a commingled fund, particularly with DWP's fund size. He stated it was anticipated the fee would double on a separate account to make up for the increase in insurance requirements. President Romero inquired, assuming it is a separate account, would it move up to 100 basis points. Mr. Siciliano responded the firm would start DWP at the same management fee of 50 basis points, but to the degree they did this in order to accommodate the insurance requirements, they would have to pass the exact cost of the additional insurance through to DWP. He added the estimate DFA has come up with is approximately 44 basis points. President Romero commented, essentially DWP would be paying for DFA's insurance.

President Romero inquired if the 50 basis points was fixed. Mr. Siciilano responded 50 basis points was a fixed management fee on the fund and there is an additional 23 basis points, which includes custody and administration totaling 73 basis points. Mr. Rue inquired, under the commingled fund arrangement, would this cover all the insurance requirements. Mr. Siciliano responded in the affirmative, adding this is what their firm carries for all of their clients.

Mr. Vazquez noted that DFA stated they hold over 1.200 companies. He then inquired what the firm does to stay abreast with what is occurring with each of those companies. Mr. Fezekas responded, with 1,200 companies, they are not following each of them very closely, but they are monitoring the quantitative and basic characteristics of each company. He explained that each company goes through a review process before being added to the portfolio and they also check the news to make sure nothing has changed with the company.

Mr. Vazquez inquired, of the 1,200 stocks, how many are large cap. Mr. Fezekas responded the portfolio was close to two thirds large cap and one third small cap in terms of market value. Mr. Vazquez inquired what the liquidity was in the small cap portion of the portfolio. Mr. Fezekas responded it varied. He stated the nice thing about this strategy is that companies that tend to become sell candidates do so because they have gone from value to growth and tend to get more liquid and therefore are easier to sell. He added when the firm buys a company they perform a liquidity screen to make sure they can buy it in terms of the necessary market cap weight.

President Romero thanked DFA for their presentation. The representatives of DFA thanked the Board and left.

Mr. Rue evaluated the six firms and summarized their presentations, pointing out there was significant tenure at all of the firms. He indicated, out of all the firms, State Street had the tightest tracking error to the benchmark, which means they would have the highest potential of not giving the Board a negative surprise. He stated Boston Company was the only active value manager in the group with a very strong track record and Marvin & Palmer, State Street, Baillie Gifford & T. Rowe Price were quality growth managers.

President Romero inquired if PCA was recommending the Board choose a value and a growth manager. Mr. Rue responded he could inform the Board which firms complement each other and which firms would be redundant. He stated he would not choose any combination of Baillie Gifford, Sate Street and T. Rowe Price. Mr. Vazquez inquired if Mr. Rue would put the Boston Company and DFA in the same boat. Mr. Rue responded in the affirmative, stating both companies have a value orientation to them, but Boston Company holds a lot less companies.

Mr. Moore inquired what compelling arguments did PCA have for going with two managers versus one. He expressed he favored Boston Company so much over the others it would be hard to select a second candidate. Mr. Rue stated it was a diversification issue. He explained emerging markets have volatility like venture capital, and you would not put all of your venture capital with one general partner. He stated if the Board was going to allocate $100 to $200 million to such a volatile asset class they need to diversify the performance. He added this was the Board's decision to make. President Romero expressed he was more receptive to selecting both a value and a growth manager.

Mr. Vazquez expressed he did not think the Board would have as much flexibility in negotiating fees for the emerging markets mandate as they had had with the others. He then inquired what T. Rowe Price's fees were. Ms. Rubalcava responded 100 basis points. President Romero noted Price's fees were negotiable. Mr. Vazquez noted Boston Company's fees were also 100 basis points. Mr. Rue stated in terms of the fee issue, PCA recommends the Board take the commingled fund route in order to simplify things if they were to choose Boston Company. He added the commingled fund fees tended to be cheaper than the separate fund fees. Ms. Bhatia commented most of the firm's commingled fees were lower.

Mr. Vazquez commented that DFA could not meet DWP's insurance requirements for liability on a commingled fund and inquired if all the other firms met the requirements. Mr. Rue confirmed the firms stated they could meet the requirements except for Baillie & Gifford's minor issue with car rental insurance. President Romero commented that Marvin & Palmer only had $25 million in professional liability insurance but could get an additional $25 million.

Mr. Vazquez reiterated he favored Boston Company and would prefer not selecting a company who does not meet the insurance requirements. He stated he also liked T. Rowe Price in terms of their performance, stating the firm outperformed the benchmark for the periods the Board was reviewing. He added they were focused on high quality companies, have a dedicated emerging market management and research team, hold a reasonable amount of stocks, and have a 70% turnover.

Commissioner McCallum expressed the Boston Company was his number one choice hands down. He stated his second choice would be between T. Rowe Price and State Street, but he had missed a portion of T. Rowe Price's presentation and would have to rely on the other Board members.

Mr. Moore inquired of Mr. Rue which firms were most complimentary to each other. Mr. Rue responded that PCA grouped Baillie Gifford, T. Rowe Price, and State Street as growth managers and Boston Company and DFA were grouped as value managers. He gave a correlation of the firms and stated Boston was complimentary to all of the other firms. Mr. Moore indicated his first choice was Boston Company and second choice was T. Rowe Price. Commissioner McCallum agreed with Mr. Moore's choices.

Ms. Calvache stated Boston Company was her number one choice and she was torn between T. Rowe Price and Marvin & Palmer. She added since T. Rowe

Price was more complimentary to Boston she would select them as her second choice. Mr. Vazquez commented, in addition to T. Rowe Price and Boston Company being complimentary and performing well, funding the mandate should be a lot easier since staff already is in the midst of contracting with them.

Mr. Vazquez moved the selection of Boston Company and T. Rowe Price as investment management firms for the Plan's emerging markets investment portfolio for resolution 04-124. Seconded by Commissioner McCallum and carried unanimously after the following vote:

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

Mr. Rue commented that Boston Company had a $50 million minimum limit with regards to the mandate size and if DWP went below this minimum there would be an issue with the fees. He added it would be easier to negotiate the fees with the appropriate allocation of funds. President Romero commented the balance would go to T. Rowe Price. Ms. Rubalcava stated that technically, the way the mandate reads, it is $90 million split in half at $45 million each. She stated she did not know if the City Attorney would have a concern with the RFP if the Board chooses to give Boston Company $50 million. Ms. Bhatia clarified the mandate was based on the percentage per the asset allocation study. Ms. Rubalcava commented the Board would have to follow the percentage for the mandate based on the market value at the time and then negotiate the fees. She added, if staff has a mandate passed by the Board, they need to follow the mandate and not set new rules. Mr. Moore and Commissioner McCallum agreed with Ms. Rubalcava's statement. Mr. Moore suggested going ahead with the negotiations and if staff sees a really compelling argument afterwards, to come back to the Board.

Ms. Rubalcava suggested the Board choose an alternate manager due to previous insurance problems with firms. Mr. Moore expressed he did not feel the Board needed to choose an alternate this time around.

President Romero ruled Item 2 be discussed next.

2. Resolution Authorizing Investment Manager to Manage the Investments in the Disability and Death Benefit Funds Under a Commingled Fund Strategy

Mr. Rue stated there were two commingled products and the Board had already gone through the interview process and hired both Wells Capital Management and Aeltus/ING in the Retirement Plan for Core Fixed income assignments. He sated their fee structures were the same but their track record was a little bit different and there was a slight difference in the Wells product. He added, ING has a longer track record and has a little bit more under management than Wells does. Mr. Rue stated it was PCA's recommendation that the Board give the Disability and Death Benefit Funds to one manager.

President Romero noted that at the last Board meeting it was discussed whether ING had been approached with managing the fixed income assets in the Disability and Death Benefit funds. He stated Wells had 5% below grade and he wanted to know what ING 's percentage was below grade and inquired if staff had received this information. Mr. Rue responded that Wells has a guideline allowing them to go into 5% below grade on their commingled fund but historically they have not held this. He stated ING was straight core and their guideline is zero.

President Romero noted death benefits and disability was not included in the percentages but at the last meeting the Board was told it was part of the percentage but would be allocated 50/50. Ms. Bhatia explained that staff planned to fund so that each manager would get the same allocation, one manager will manage the disability and death benefit funds. She stated the asset allocation structure recommended by PCA was actually only based on the Retirement fund; however the amounts in the disability and death benefit fund were small in terms of materiality when compared to the entire portfolio. Also, since the disability and death benefit funds only hold fixed income securities, staff therefore felt it was logical to have the disability and death benefit funds be managed by one of the selected managers. President Romero agreed with Ms. Bhatia's explanation but expressed he was concerned if Wells was going to receive an additional amount of money. He inquired what was the total amount in the disability and death benefit fund. Ms. Bhatia responded there was $24 million in the Disability Plan and $18 million in the Death Benefit Plan as far as securities, but there was also some cash. President Romero inquired if the cash was one lump sum or were there separate cash accounts for each one. Ms. Bhatia responded each fund had some cash. President Romero inquired if this cash was going to go to the managers. Ms. Bhatia responded it would depend on how the allocation to the managers was done. She stated first the fixed income securities would go. She explained the Bank of New York would take care of the entire transition, and there would be a cash component. Ms. Bhatia stated there was approximately $1.2 billion in fixed- income securities and the rest would be cash. President Romero noted that currently the cash is used for commercial paper. Ms. Bhatia confirmed the cash is invested in commercial paper. President Romero inquired how much cash was in the death and disability fund. Ms. Bhatia responded approximately $25 million. She explained the mandate is to fund the two fixed income managers at a total of $1.5 billion. Mr. Rue commented it was on record and in one of PCA's memos that DWP does not have any investment guidelines for the death and disability plans so the 50/50 split only applies to the Retirement Plan. He stated PCA was not averse to having one manager run the whole thing.

Ms. Calvache inquired how much TCW had in the death benefit fund. Ms. Bhatia responded there was only one manager managing both the disability and death benefit fund. She stated the amount was reflected in Resolution 04-123 of the Board package. She reiterated there was $24 million in the Disability Plan and $18 million in the Death Benefit Plan. President Romero inquired if the Resolution should also reflect the cash. Ms. Bhatia explained that expenses are paid out of each of those funds, adding there were disability and death benefit fund expenses of almost half a million a month each. She stated, depending on the funding, the cash may or may not go to the managers and may still be invested by staff in commercial paper. The mandate was to fund the two fixed income managers $750 million each based on the market value at the time the asset allocation study was done. Mr. Rue commented this was just the Retirement Plan. Ms. Bhatia emphasized that she has said from the very beginning that the asset allocation structure was based only on the Retirement Plan; however these two funds also hold fixed income securities. She stated, unless the Board expects to hire a separate manager for $50 million, it would make sense to have one of the fixed income managers manage the disability and death benefit funds and maintain them separately, which each of them have agreed to do. President Romero reiterated his concern of the proper due diligence with regards to the cash. He requested PCA's recommendation on how much cash there should be in the fund because if half a million is spent a month to pay benefits, they may not need to have so much cash. Mr. Rue responded this was the function of the commingled fund, which is highly liquid. President Romero inquired if a small percentage should be put in cash and the rest in a commingled fund or all in the commingled fund and draw the cash as needed. Mr. Rue suggested drawing the cash as needed from the commingled fund. Mr. Romero said PCA's recommendation must be considered so the Board members can decide whether it is prudent to have $25 million in cash or 3%. Mr. Rue recommended the Board retain a commingled fund vehicle for the death and disability Plan and place the entire amount that is in each of the plans in that vehicle.

Mr. Moore expressed he felt the Board was complicating things. He stated he did not want to be in a position of telling staff what level of cash they need to hold to continue to fund expenses out of the two funds. He added that staff could figure this out for themselves over time based on what they need in the way of working capital. Mr. Moore suggested letting staff hold out as much cash as they deemed necessary to maintain the appropriate cash level and suggested the Board decide whether to give half the portfolio in total value to one manager and half to the other. He suggested that the Board selects one of the commingled funds, and that amount will be deducted from their total so the two managers will still have the same amount of monies available to them. President Romero stated he did not feel it was complicated but their needed to be a process as to where the cash is placed, and the Board needed a recommendation from the consultant on what is the correct way to do this. Mr. Rue stated the 50/50 applies only to the Retirement plan. Mr. Moore stated he understood this, but he wanted to conclude this issue and did not know why the Board is continuing to hold on to it. President Romero reiterated he wanted a recommendation from PCA, on the record, as to what the Board should do with the cash. Mr. Moore expressed he was very concerned about slowing down the transition for the rest of the fixed income. President Romero stated his intent was not to slow down the process, but to get a recommendation from PCA, even if by letter. Mr. Rue inquired if the recommendation had to be documented. President Romero responded everything had to be on the record. Mr. Vazquez inquired why PCA could not make a recommendation now, followed up by a letter. Mr. Rue stated he had already done that. Ms. Bhatia clarified there was a PCA recommendation in the agenda packet regarding the disability and death benefit as to whether or not to use a commingled fund and which company to use.

Mr. Vazquez referred to a memo from ING on page 2.6 of the agenda packet, wherein the firm addresses the fact the Board does not need to be concerned with withholding the cash because they can get cash value from ING as needed. He suggested the Board do the retirement fund and the death and disability funds on a combined fee basis. Mr. Rue clarified that fees would be deducted from the fund itself if it is a commingled fund.

Mr. George Matthews (Wells Capital Management) approached the podium.

President Romero recognized Mr. Matthews

Mr. Matthews clarified the fees were not taken out of the fund. He stated they would look at the entire amount and apply the fees. Ms. Bhatia explained we have the two funds as an additional amount on the second break on the fee schedule, and both Wells and ING have indicated they would treat it that way so we get the fee break.

Mr. Matthews returned to the audience.

Mr. Vazquez requested Mr. Rue repeat PCA's recommendation. Mr. Rue clarified his recommendation was not documented in the memo in the agenda packet. He then recommended the Board use a commingled fund for the death and disability assets.

Mr. Vazquez inquired what PCA's recommendation was on whether or not to take the $1.5 billion add the disability and death benefit fund to it and split it into two parts or just fund half of the retirement fund to each and then just add the disability and death benefit fund incrementally to one of the managers. Mr. Rue responded that on a fee basis, one would want to combine things because it is going to save the Plan fees, but in terms of policy the Retirement Plan and Death and Disability Plans are treated separately. He stated to the extent it is completely fungible he would fund the death and disability funds with cash and then they could assign the fixed income assets back in their respective amounts to the retirement Plan. He further stated it was his understanding that all of the cash is in the Retirement Fund. Ms. Bhatia clarified there was cash in each fund since expenses are required in each fund. Mr. Rue stated if cash was going to be used to fund the commingled fund there has to be some kind of accounting mechanism in place. Ms. Bhatia clarified the amount of cash changes from day to day, but she could provide today's amount after the meeting. President Romero requested something in writing from PCA that states all the cash should be given to the commingled fund, that way the Board is not making the decision of keeping so much cash. Mr. Rue indicated he would make a recommendation in writing and submit it to the Board. President Romero stated the Board could take action on PCA's recommendation and Mr. Rue could follow up with a letter to be kept on file.

Ms. Rubalcava pointed out that the Board had not made a decision on whether to select Wells or ING and PCA is not making that recommendation because it is a Board decision. President Romero inquired of Mr. Rue whether there were any differences between the two companies. Mr. Rue responded there were very minor difference, but, basically the Board would be getting the same type of portfolio with both companies. Ms. Rubalcava reminded the Board that when staff called ING and Wells requesting a proposal for the death and disability fund, Wells immediately submitted a proposal while ING did not respond at all.

Mr. Vazquez noted that Wells was located right down the street from DWP and for that reason he would recommend the Board select Wells. He commented either firm would be performing this task as an accommodation to the Plan.

Mr. Vazquez moved the adoption of Resolution 04-123 for the selection of Wells Capital Management to manage the investments in the disability and death benefit funds under a commingled fund strategy. Seconded by Mr. Moore and carried unanimously after the following vote:

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

The meeting was adjourned at 1:10pm.

JAVIER ROMERO
President

ADRIANA RUBALCAVA
Secretary

IRENE COLON
Recording Secretary