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

MINUTES – July 7, 2004

Present:

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

Absent:

Frank Salas	General Manager
Gerard McCallum II	Commissioner

Others Present:

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

President Romero called the meeting to order at 9:18 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

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

PUBLIC COMMENTS

Ms. Rubalcava stated there were no public comments.

President Romero noted this was the last event of the first phase of the transition, and he wanted to thank staff and everyone who participated for all of their hard work. He announced that Pension Consulting Alliance (PCA) was gracious enough to bring in a cake for the Retirement Board and the Retirement Office staff to enjoy.

Mr. Rue passed out an updated memo, which pictured a pie chart reflecting the overall fixed income benchmark. He indicated PCA had designed the guidelines for the high yield manager to be flexible to go into some of the other segments, as they tactically desire to do so. He stated there was going to be a varying degree spectrum of expertise across the managers into the other segments and the Board may want to ask questions in this regard.

1. **Interview and possible selection of High Yield Fixed Income Manager Firm or Firms (From those responding to the Plan's Request for Proposal –High Yield Fixed Income Managers):**

   a. **Fidelity Management Trust Company**

Messrs. Arthur Greenwood, Senior Vice President, and Daniel J. Tremblay, Senior Vice President, Fixed Income Investment Director of Fidelity Management Trust Company approached the table.

President Romero acknowledged the representatives from Fidelity Management Trust Company.

Mr. Greenwood introduced himself and Mr. Tremblay and informed the Board of their responsibilities within the company. He indicated he and Mr. Tremblay would be focusing on conveying three key themes, the first of which is the existence of their dedicated high yield bond unit. He stated they have a 30 person stand alone group with dedicated research and systems, legal, administration, and compliance, all separate from the investment grade fixed income group. He stated secondly they would discus the depth and breadth of their research resources. Mr. Greenwood expressed the firm's research team of almost 25 professionals provides an intensity of coverage across the entire landscape of the high yield bond universe and at the same time gives them the ability to be very selective within the capital structure. He listed the third theme as their disciplined risk controlled investment process, which focuses on moderating the volatility in the portfolio and avoiding defaults. Mr. Greenwood reminded the Retirement Board that Fidelity had fully completed all of the insurance requirements necessitated by the Department's RFP process and had received a sign off by DWP's risk manager. He stated, by this being Fidelity's prospective second portfolio opportunity with DWP, he wanted to remind the Board they were entitled to a second portfolio discount of 20% which brings down their separate account management fees typically from 50 basis points to 40. He added the commingled pool in the same strategy was a standard 40 basis points, which would be reduced to 32.

Mr. Greenwood pointed out that Fidelity is a 100% privately held money management firm, and all of its equity is held by senior management and investment professionals. He added the firm has very low turnover of personnel. Mr. Greenwood reported there were five fidelity offices in the Greater Los Angeles area and gave examples of community relations, which included the Omega Boys Club, the Susan G. Koemen Breast Cancer Foundation, and the Lynne Cohen Foundation (ovarian cancer research). He then highlighted a number of the various practices and programs Fidelity employs in their attempt to increase and expand diversity. Mr. Greenwood reported the firm has an affirmative action plan in place with specific goals and objectives and they also work with INROADS internships, the TOIGO Foundation and the NASP Organization (which expands the presence and influence of women and minorities in the securities industry). He added the firm has relationships with 11 emerging brokers, 4 of which are based in California.

Mr. Tremblay outlined Fidelity's fixed income capabilities, stating the firm has a very broad line-up across both investment grade and non-investment grade disciplines. He reported overall the firm has $150 billion in total bond assets supported by 120 fixed income investment professionals. He also reported the firm has 30 dedicated high yield investment professionals, access to Fidelity's 200 equity analysts around the globe, and together they manage $4 billion in high yield institutional assets represented by 40 institutional clients.

Mr. Tremblay reviewed Fidelity's high yield research philosophy, stating the foundation of the investment process is fundamental research and their number one objective is to avoid defaults and minimize downside risks. He added they accomplish this by consistently outperforming the index. He stated the firm also attains their objective by analyzing the entire capital structure of the firm and leveraging their global research resources. Mr. Tremblay explained that Fidelity's goal was to uncover more return than their competitors, ask questions today that others are asking two months from now, and identify relative value in the marketplace and bring this to bear fruit in DWP's portfolio. He stated the end result is a portfolio that is very highly diversified across issuers and industries with concentration in the "BB and "B" part of the credit market, where they feel the harder the market their research adds the most value. He further stated the firm downplays their access to distress debt, "CCC" rated bonds, equity preferred stock, and a very core high yield corporate bond focus.

Mr. Tremblay reported the firm has six high yield portfolio managers supported by trading research and a dedicated system. He listed the portfolio team's resources as an information technology center, a high yield information center, a compliance team, and legal counsel. Mr. Tremblay stated their fourteen analysts' jobs are to identify relative value, build a mosaic, and identify where value needs to be added in the portfolios. He explained the portfolio managers then take this information and invest the best securities possible in their portfolios. Mr. Tremblay expressed that the firm combines broad and intense coverage to outperform the benchmark, adding that in 2002, they outperformed by over 400 basis points. He elaborated by stating Fidelity's portfolio construction decisions are based on security selection, industry allocation, ratings allocation, and capital structure. He emphasized risk management was fully integrated into the portfolio starting with the research and is linked to their information technology, and compliance group.

Mr. Tremblay described a sample portfolio pointing out there are over 200 issuers in the portfolio. He stated from a positioning standpoint, their focus is on cash pay bonds, and from a quality distribution standpoint they focus on "BB" and "B" bonds, but when they do buy "CCC" it is of a higher quality. Mr. Vazquez inquired why the firm keeps 5% in cash. Mr. Tremblay responded their typical allocation was somewhere between 2% and 3%. He explained the 5% in cash may have been to take advantage of a new issue in the market or maybe a bond matured and they did not have an opportunity to reposition it yet. Mr. Tremblay then highlighted the firm's consistency of performance over a three-year period.

Mr. Tremblay summarized his presentation by stating the consistency of Fidelity's process and performance is what they try to deliver. He stated the firm utilizes their depth and breadth of coverage to construct highly diversified portfolios and at the end of the day they aim to deliver strong absolute performance backed up by very strong risk adjusted returns. He expressed over short time periods more risk could equal more return, but it is their belief that over the long term, a balance of risk and return is what wins at the end of the day.

President Romero inquired what was the lowest quality bond Fidelity has in their portfolio. Mr. Tremblay responded the firm does own 3% to 4% not rated bonds. President Romero inquired when Mr. Tremblay states, “not rated”, what does this mean. Mr. Tremblay responded, typically this was a company that has not received a rating from S & P, but in their belief, it has characteristics like a “B” or “BB” bond and may over the next six to nine months receive a rating.

Mr. Moore inquired what Fidelity’s typical turnover was. Mr. Tremblay responded their average turnover in the portfolio was somewhere between 80% to 120% per year. He stated as far as a holding period for bonds they owned, it varied. He explained there were bonds that have been in the portfolio since the late 1990s that have been core holdings and continue to pay. He stated there were bonds the firm feels are core holdings and pay a very attractive yield and they will continue to hold them until maturity, versus other bonds that are tactical investments and may be turned over in three to nine months, depending on their price target.

Mr. Moore noted the firm uses the Merrill Lynch high yield master index and the Board would be selecting the Lehman high yield index. He then inquired what issues there may be relative to the fact that Fidelity will be tracking a different index. Mr. Tremblay responded in the high yield universe there are four or five indices that are very well received and he has found different results using each. He expressed he did not feel there was a major difference between the Merrill Lynch and the Lehman high yield index. He stated he considers Lehman as one of the indices having the same type of inclusion rules, very similar performance over time, and there is not a major difference in any characteristic from the Merrill Lynch high yield master indices that would make their strategy seem different from a Lehman high yield index. Mr. Moore inquired if the index drives the firm at all in their security selection. Mr. Tremblay responded that Fidelity is sensitive to the index, but given that most of the indices have the same inclusion rules, they can just follow their universe. Mr. Greenwood commented, with respect to a separate account, if a client preferred a Lehman then they would manage the portfolio to that index. He clarified their commingled pool is managed to the Merrill Lynch index. Mr. Vazquez requested Mr. Rue’s opinion on the differences between the indices because the Board would be measuring the performance versus one index. Mr. Rue stated he was comfortable with Fidelity’s response. He explained the reason the Lehman aggregate is selected is because it is integrated better with the other benchmarks. He expressed he would have to defer to Mr. Tremblay in terms of expertise on the precise differences between the Merrill Lynch Master and the Lehman indices, although they are highly correlated with one another. Mr. Rue stated if the Board chose to go the commingled route, then he would suggest having it benchmarked against the Merrill Lynch Master. However, from a strategy perspective, it would be better to be benchmarked against the same index. Mr. Tremblay indicated that in a separate account mandate, Fidelity would be very sensitive and happy to be measured against the Lehman index on a performance standpoint as well as a portfolio position.

Mr. Vazquez noted that Fidelity has 40 high yield clients and inquired what number have individual accounts versus commingled, why the pricing was different, and which did he recommend for DWP. Mr. Tremblay responded that their firm has eight to ten separate accounts and the rest of the clients are in a commingled pool. He stated, as far as a pricing difference, they have found there is more economy of scale in pricing a pool versus a separate account, whether it is client servicing, custody, etc. Mr. Tremblay further stated, as far as their recommendation for DWP's bond portfolio, at a $100 million, it would be reasonable to either manage a separate account or use a commingled pool. He indicated the plus to a commingled pool is that there is a cost savings. However, a separate account provides a little more flexibility if one wants a unique constraint in the portfolio and one could choose an index.

Mr. Moore noted that historically Fidelity has had a high overweight in Telecom and requested an explanation. Mr. Tremblay stated when looking back to the late 90's, Fidelity fell victim to the Telecom bubble as much as anyone. He stated they tried to diversify, but it was a large part of the market and it was very common for managers to have 20% to 25% of their portfolio in Telecom when it was 20% of the market. Mr. Tremblay explained their firm was caught off guard by a couple of issuers but there were many wireless names that continued to perform well. He stated when it started cratering in 2000 is when Fidelity decided to aggressively start taking some risks off the table. He clarified now that it is only 8% of the market and they have a 4% overweight but nowhere near the days of the 20% to 25% in Telecom many of the managers had in the late 1990s.

Mr. Moore noted, according to PCA, Fidelity has been carrying a relatively large amount of cash at 10% for two years. Mr. Tremblay responded cash has typically been 0 to 5% and he was not sure if this happened due to the selling of some of the bonds they own that were at a year or year and a half from maturity. Mr. Rue indicated this was the case. Mr. Tremblay explained that the firm does use 0 to 5% cash as bonds settle and mature so they can take advantage of new opportunities. He added fidelity is not looking to time the market by having a 10% cash bucket and not give the client exposure to the high yield asset class they are looking for.

President Romero noted that Fidelity indicated their insurance concerns had been taken care of as of last week. Mr. Greenwood responded the firm had received an email from Mr. Neaman (DWP Risk Management) a week ago confirming that Fidelity is complete. President Romero inquired if there were any other issues that were holding them back from currently being funded. Mr. Greenwood responded there were no issues to his knowledge. He indicated the last couple of sentences of the guidelines were being reviewed and he expects the contracts to be funded momentarily. Ms. Rubalcava inquired if Mr. Greenwood was referring to the international mandate. Mr. Greenwood responded in the affirmative. Ms. Rubalcava explained, because the Board chose a commingled account, staff was reviewing Fidelity's investment guidelines and those guidelines would supersede the Board approved investment guidelines. She stated this was a new element that was brought into the negotiations of the contract and this was the final piece that was being worked on with Fidelity with regards to international, and then staff could move on to funding.

President Romero thanked Fidelity Management Trust Company for their presentation. The representatives of Fidelity Management Trust Company thanked the Board and left.

Ms. Rubalcava informed the Board that even though staff was at the final negotiations of the contract verbiage, there were additional steps before going to funding. She stated the City Attorney's Office and PCA have to review the contract and then obtain Fidelity and President Romero's signature.

b. Lincoln Capital Fixed Income Management Co., LLC

Mr. Robert J. Schank, CFA, Senior Vice President and Ann H. Benjamin, Managing Director, of Lincoln Capital Fixed Income Management Co., LLC, approached the table.

President Romero recognized the representatives from Lincoln Capital Fixed Income Management Co., LLC.

Mr. Schank introduced himself and Ms. Benjamin, giving a brief description and history of their roles at Lincoln Capital. He provided a background of the firm, stating they have been in the fixed income management business since 1981 and entered the high yield business in 1997. Mr. Schank stated, as a firm, they focus on fixed income management for large plan sponsors with a relatively limited number of products. He further stated the firm also focuses on a list of generally large clients, striving to give them a very high level of service and investment performance. Mr. Schank reported Lincoln Capital has approximately $36 billion in fixed income under management, broken down into three broad strategies as follows: 1) investment grade at $27 billion, 2) high yield at a little over $3 billion (as of June), and 3) a cash management business, which focuses on $7 billion. Mr. Schank also reported, as of a year and a half ago, the fixed income side of Lincoln Capital split off from the equity side and became a wholly owned subsidiary of Lehman Brothers at the end of January 2003. He expressed the relationship is working out very well and they have benefited greatly from Lincoln's resources and financial strength, yet Lincoln has maintained total investment autonomy.

Ms. Benjamin reported Lincoln has a very solid senior team and all members of the team have significant credit experience and have gone through a credit-training program. She presented an overview of the firm's philosophy process in which they focus on fundamental and relative value, have a high quality bias with a relative value overlay, and have a track record to support their process. Ms. Benjamin expressed that the firm's fundamental business knowledge, credit research, and proprietary credit modeling is what drives their process. She stated Lincoln has an ongoing monitoring system and very intensive teamwork in order to achieve their goal to add 75 to 100 basis points over a high yield bond index over a market cycle. She further stated the firm focuses on capital appreciation and income as well as avoiding capital depreciation. Ms. Benjamin conveyed to the Board that Lincoln focuses on the "BB" and "B" arena; however they feel during certain parts of the cycle there are opportunities in the "BBB" area. She commented on how rating agencies got scared during the past rating cycle and mis-rated Enron WorldCom, but now they are mis-rating good "B" companies by rating them "CCC", so Lincoln Capital believes there are areas of opportunity around the "BB" and "B" arena. She emphasized the firm's investment process most importantly focuses on issue selection, industry fundamentals, portfolio management and monitoring, and risk management.

Ms. Benjamin described how the firm narrows down the universe to a manageable number of credits to research by starting the process with all high yield securities in the universe, including the "BBB" that trade like high yield. She stated these are filtered out first by issuers less than $50 million, defaulted securities, one time issuers, long dated maturities, emerging markets securities, etc. Ms. Benjamin explained how this sorting process leaves them with approximately 30 companies, those companies are sorted according to value, and then they rank the issues on a relative value basis in order to start their credit process. She stated, before investing, they go through a checklist of proprietary modeling, relative value analysis, strategic business analysis, and management review.

Ms. Benjamin outlined Lincoln Capital's sell discipline, in which a stock is sold if it reaches its target valuation, has unexpected management change, and changes in the fundamentals. She stated their team meets daily to discuss risk management recaps, cash positions, the new issue calendar, and performance. She further stated the team also meets twice a week to discuss new credits, secondary ideas, larger investment themes, and credit events. Ms. Benjamin indicated their portfolio risk is characterized on a daily basis relative to the index based on sector, industry, issuer, coupon, and maturity. She stated the firm then monitors daily changes in price and feels that firm-wide compliance is a priority.

Mr. Schank reported Lincoln Capital has added value over the index five out of the six years they have managed high yield. He reviewed the firm's fee schedule, stating it was 50 basis points on the first $25 million, 40 basis points on the next $25 million, and 30 on the next $50 million. He noted DWP's mandate is being considered in the area of $85 million to $100 million, resulting in the annual fee in basis points in the high 30s.

Mr. Schank concluded by stating Lincoln Capital was a very solid firm dedicated to their clients and fixed income management, pointing out they have $3 billion in high yield assets.

Mr. Moore inquired what has been the firm's turnover rate and what their philosophy is with respect to how long to hold on to a security. Ms. Benjamin responded their turnover rate was 100% to 120%. She stated 40% of the skill is having the knowledge that a stock will get to a certain level over a period of two years by increasing in credit quality. She explained how the firm forecasts the numbers and in a cycle the highest rating and the tightest spread would be "x" and if it hits that and there is a better investment idea, they will move on. Mr. Moore inquired what has been Lincoln Capital's default rate. Ms. Benjamin responded less than 1%.

Mr. Vazquez noted the firm focuses on "BB" and "B" bonds and inquired if they have unrated or "CCC" bonds also. Ms. Benjamin responded the firm does have some not rated bonds in their portfolio as well as “CCC”, but it depends on what their client’s guidelines allow. She stated the firm does have their own rating system so if the not rated bonds are in the portfolio, this alerts them it is rated “B” or “BB ”by the firm. Mr. Vazquez inquired what percentage did Lincoln Capital have in the not rated and “CCC” category. Ms. Benjamin responded currently the firm has about 5% not rated and 10% “CCC” bonds.

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

c. Loomis, Sayles & Company

Ms. Jennifer P. Hunt, Director, Public Funds Sales & Marketing and Ms. Elaine M. Stokes, Vice President Portfolio of Loomis, Sayles & Company approached the table.

President Romero recognized the representatives from Loomis, Sayles & Company.

Ms. Hunt began the presentation by giving a brief background of Ms. Stokes, herself, and Loomis Sayles. She reported the firm began in 1926, has been managing funds for over 76 years, has 419 employees, has $56 billion in assets under management and $16 billion of that is in public fund assets. She added $21 million goes to their proprietary research every year. Ms. Hunt stated the firm has been managing high yield bonds since 1976 and has accumulated $46 billion in the fixed income assets with a little over $6 billion represented in the high yield asset class. She pointed out the depth of their resources in the fixed income group, stating they have 20 fixed income portfolio managers, 19 senior fixed income analysts, 20 centralized specialized bond traders, and 9 client portfolio managers.

Ms. Hunt explained the firm’s stock and bond selection process, stating it goes through each credit the firm follows with an internal rating that they place on the credit, followed by Moody’s and S & P.

Ms. Stokes described the responsibility of their management team, which is spread across all of the high yield portfolios. She emphasized that the team’s background is both in trading and credit research, allowing them to execute the fundamental analytical work as well as understand the market.

Ms. Stokes outlined the firm’s high yield investment philosophy, stating they have a performance-oriented absolute return strategy, which is driven by the firm’s belief in rigorous fundamental research in order to produce long-term positive returns for their clients. She stated this was achieved by collaborative team management, bottom –up security selection, and building the portfolio one bond at a time. Ms. Stokes explained the firm’s collaborative investment process, stating the entire team meets every six weeks to discuss the bond policy; the asset class team creates the buy and sell list; and the product team takes those inputs and selects the bonds that will go into the portfolio. She indicated the firm’s approach to portfolio construction is very balanced and they select bonds with deep value representing about a third of the portfolio and the rest of the bonds are more stable. Ms. Stokes reported the firm typically keeps 125 to 150 issues in their high yield accounts, but expects the number to get close to 200. She added they diversify broadly, opportunistically use off benchmark high yield substitutes, and are willing to make portfolio adjustments to meet the client's risk/return objectives.

Ms. Stokes briefly commented on the firm's risk management, expressing it comes out in the due diligence process they put into place. She indicated Loomis Sayles is a research firm with strong technology efforts and dedicates their resources ensuring they have looked deeply into every security going into a portfolio.

Ms. Stokes discussed Loomis Sayle's high yield conservative composite characteristics, which tend to be 125 to 150 issues. She indicated their turnover rate tends to be on the low side at 35%, due to their long-term time horizon. Ms. Stokes stated their average quality is "Ba1" and 70% of the portfolio is in high yield US corporates and investment grade US corporates, mostly lower quality "BBB". She added they also have a cash reserve, small allocations to emerging markets, convertibles, and foreign currency, depending on the guideline restrictions.

Ms. Hunt outlined the firm's performance against the Lehman Brother high yield index and indicated that the client can expect anywhere from 250 to 300 basis points from them. She stated although the firm would provide great returns on the portfolio, they still stay within a reasonable risk return analysis.

President Romero noted, in the last three years, the information provided by Loomis Sayles indicates they have lost 24 accounts and their performance over three to five years has been second best among companies being interviewed. He then inquired what is the explanation for the loss of those accounts. Ms. Hunt responded one reason would be a change out of the asset class. Ms. Stokes responded that number was a reflection of a loss of accounts out of all of their fixed income and not just the high yield. She clarified the firm has lost 11 accounts, which is still a little on the high side, and explained she attributes this to a change in style. She further explained some of the firm's high yield accounts moved to Loomis Sayle's medium grade product or just chose to cut their high yield exposure. Mr. Rue commented that in the 2002 period, high yield was producing negative numbers, while core fixed was doing very well. Therefore a bulk of their changes were occurring, due to accounts switching out of high yield into something more conservative. Ms. Stokes expressed she did not feel that high yield is an asset class that one should go into for just a year or two, but that one should live through the cycles.

President Romero inquired what the firm's average quality of bond was. Ms. Stokes responded the average quality was anywhere between "Ba1 and "Ba3" in the conservative product. President Romero inquired if the lowest rating was "CCC". Ms. Stokes responded the firm does have "CCC" in the conservative portfolio, but these bonds are limited. Mr. Rue inquired if the firm runs separate accounts and commingled products. Ms. Hunt clarified they had all separate accounts. President Romero again inquired, for clarification, if the firm had a specific number of "CCC" bonds. Ms. Stokes responded they did not have a specific number, but a client could set limitations. President Romero inquired was there an average number among their clients. Ms. Stokes responded when looking at their composite, the average "CCC" and lower is at

11%. Mr. Rue inquired, assuming Loomis Sayles is given complete discretion in their conservative product, how much would they have in “CCC”. Ms. Stokes responded, as of March 31, 2004, the Lehman index was 19% in “CCC” and the firm was between 11% and 15%. Mr. Rue inquired if the firm considers this a maximum. Ms. Stokes responded in the affirmative.

Mr. Vazquez inquired what the default rate was for the firm’s conservative portfolios. Ms. Stokes responded she believed it was 2.59% over a 10-year period, but she would check to make sure this was correct.

Mr. Vazquez inquired what kind of work the firm did out of their Pasadena office. Ms. Hunt responded they work with high net worth individuals out of the Pasadena office.

President Romero thanked Loomis, Sayles & Company for their presentation. The representatives of Loomis, Sayles & Company thanked the Board and left.

President Romero called for a brief recess at 10:55 a.m.

[Recess]

The Board meeting interviews reconvened at 11:00 a.m.

d. Wells Capital Management

Mr. Thomas A. Harrison, IV, CFA, Senior Managing Director, Mr. Roger Wittlin, Managing Director of High Yield Securities, Ms. Sylvia Chan Managing Director of Client Services, and Sandra M. Willen, CFA, Managing Director of Client Services from Wells Capital Management approached the table.

President Romero recognized the representatives from Wells Capital Management.

Mr. Harrison began by giving an introduction of the representatives from Wells Capital Management and explained their responsibilities within the company. He then outlined the company’s understanding of what is important to the DWP Retirement Plan, such as local commitment to Los Angeles and DWP, diversity and inclusion, maintaining a strong business integrity, insurance requirements, and the best performing high yield fixed income strategy utilizing a sound investment process and managed by smart people.

Mr. Whittlin reported the firm has 26 employees dedicated to high yield with a bundle of resources. He explained that the Wells Fargo “AAA” rating comes from very good asset liability management and underwriting credit risk process. He pointed out what makes them different from other high yield managers is their large proprietary position that goes up and down based on price, and which affects the profitability of the group. Therefore, with any bond invested in DWP’s portfolio, there is a 99% chance that Wells would own it in their proprietary portfolio. Mr. Wittlin explained when a bond goes up and down in price, they feel it internally because it affects the profit and loss statement for the bank. He further explained the firm’s credit process, in which they buy bonds and underwrite their credit as if the bank made a loan to the company. Mr. wittlin broke down the firm analyst team stating they issue a low number of credits per analyst at approximately 25 names each and each senior analyst is leveraged by a junior analyst to provide in-depth analysis by sector and credit. He listed the resources their analysts tap into for expertise as: American Commercial Capital (which finances branded restaurants and convenience stores), Foothill (an asset-based lender), and Eastdil (a real estate investment bank). Mr. Wittlin emphasized the firm does not make decisions on external research because it is biased, but rather desires independent research to gauge their opinion.

Ms. Chan explained the extensive credit analysis Well's performs using a 23-point checklist. She stated the first question asked is do they understand the company, how do they make money, and what do they know about the management team. She added the firm also analyzes asset value. Ms. Chan stated after the check list analysis the team writes a comprehensive investment memorandum highlighting the structure of the company, the strength and weakness of the credit of the company, the business, the industry analysis, the historical financial performance of the company, and then a projection or outlook of where they see the company going. She stated ultimately they do an asset evaluation in terms of how strong an asset is in covering the company's debt. Mr. Harrison commented that many high yield deals are known as secured subordinated debt and when they do asset evaluations they test it from the worst of times and not when it was at its best, which gives one a downside protection that if things go wrong the bond will only drop so much.

Mr. Wittlin briefly reviewed how the firm conducts the portfolio starting with an analyst discussion. He stated they were extremely well diversified and their performance is significantly better than their peer groups and the index, due to their diversity across the sectors. He pointed out in some sectors they are significantly overweighted and in some significantly underweighted.

President Romero inquired what was the average quality of the portfolio's bonds. Mr. Wittlin responded a "B2 rating". President Romero inquired what the firm's turnover was. Mr. Wittlin responded their turnover was approximately 38% to 40%, due to bonds getting called because of the ability of the issuer to reissue at a lower interest rate. President Romero inquired what the lowest grade of bond Well's carries in their portfolio. Mr. Wittlin responded the firm carries "CCC" bonds, but if anything goes below this they go to a special bucket and must justify why they would hold it at that point. He stated currently they were at 9% "CCC", but have been as high as 15% and as low as 1%.

Mr. Moore requested the representatives elaborate on the management structure reflected on page 7 of Well's presentation booklet as it relates to the proprietary portfolio versus the assets under management. Mr. Wittlin responded the firm's proprietary portfolio is about $950 million, they have a little over $1 billion in separate accounts and in the mutual fund, and they also manage three high yield CBOs (structured products) at $1 billion. He referred to a chart and explained the CBOs and the managers were on the right side of the chart, which he manages, and Santurnino Fanlo (founder) and George Wick ran the proprietary portfolio, but Mr. Fanlo recently left the bank. Mr. Wittlin clarified both he and Mr. Wick access the credit teams and that the proprietary decision and their decision is a separate process. He added there were two heads of research and four traders under them.

Mr. Moore indicated he got the impression that Mr. Sutter was originally from Wells Fargo and this was not an acquisition. Mr. Harrison responded it was not an acquisition, but part of Wells Fargo. He clarified Wells Capital got together with them a little over three years ago.

Mr. Moore noted the firm compares themselves to the Merrill Lynch index, whereas the Board uses the Lehman, and inquired to what extent is that going to be an issue. Mr. Wittlin responded that Wells benchmarks to Merrill Lynch, Solomon, the Lehman index, and Credit Suisse; therefore they are indifferent to which index is used.

Mr. Vazquez inquired what number of clients did Wells Capital have in the high yield mandate and what was the total dollars under management. Mr. Wittlin responded the total dollars from proprietary to CBOs in high yield was approximately $3 billion. He stated they also had 15 separate clients. Mr. Vazquez inquired what was the default rate that they have experienced in this portfolio. Mr. Wittlin responded their default in this area has been approximately 8% over the last 6 years and they run 10% to 20% of the standard high yield default rate.

Mr. Vazquez inquired about the firm’s fees. Mr. Harrison responded their fees were negotiable. Mr. Rue commented that Wells Capital already had an existing relationship with DWP. Mr. Harrison stated, due to a most favored nations, clause they can only go down to a certain point. He explained when the firm provided the fee information along with their proposal a year and three months ago, they did not have the current most favored nations. He indicated Wells can now offer a lower fee to some degree, but they must go back and figure those numbers out. Mr. Rue inquired, since Wells Capital will have multiple relationships with DWP, do fee discounts become available. Mr. Harrison responded the firm understands there are multiple relationships and they would do their very best to give DWP the best fee they possibly can, given those relationships. He added he was not prepared to give an exact number.

Mr. Moore noted it would appear the amount of assets and accounts Wells has under management in the high yield mandate have grown rather substantially in the last three years. He then inquired to what extent this imposes a burden on the firm’s ability to manage DWP’s portfolio. Mr. Wittlin responded there was no question that the resources can manage it and the issue is how much money does one really want to manage in high yield. He informed the Board that Wells was not at their capacity yet and they could grow significantly in assets from where they presently are. Mr. Harrison commented, there was a heavy incentive for Wells to make sure when they are getting close to capacity they do not go over it because they are owners in it as well.

Mr. Moore noted the representatives previously stated that, Mr. Fanlo, a major player in putting the high yield process together had recently left the firm. He then inquired when Mr. Fanlo left and asked PCA what their extent of concern was regarding this issue. Mr. Wittlin responded that Mr. Fanlo founded their high yield process in 1995 and around

2000 he became the asset manager of other classes and also took on the treasurer roll of Wells Fargo. He stated he himself had become the head of the high yield group, made every portfolio decision, and had been managing the employees in the high yield groups over the past four years. Mr. Wittlin stated he and Mr. Fanlo had discussed credit frequently but he spent about 20% of his time on the proprietary portfolio and almost none on the managed account. He added, the firm has a very deep team and this was not a superstar Bill Gross (Pemco) situation. Mr. Wittlin expressed that Well's team is very solid and deep with a terrific process, which is the key to their organization. He reported that Mr. Fanlo recently left Wells Capital to work for an equity hedge fund.

President Romero called for a lunch break at 11:35 p.m.

[Recess]

The Board meeting interviews reconvened at 12:17 p.m.

Ms. Rubalcava indicated there was a quorum of the Board present.

President Romero asked Mr. Rue if he had anything to say or to recap.

Mr. Rue expressed the candidate firms were staffed with dedicated teams; therefore he did not think the Board could go wrong choosing and of the firms. He pointed out that Fidelity Investments has the largest dedicated high yield team, which is probably the best high yield factory compared to other firms. Mr. Rue indicated Fidelity Investments and Wells Capital Management had already gone through DWP's contractual process. He informed the Board that Mr. Greenwood indicated there was a multiple relationship fee discount available to DWP. Mr. Rue conveyed both Lincoln Capital and Loomis Sayles are well-known heavy hitters of high yield asset management and are highly regarded in the bond community as longtime investors in high yield. He advised the Board they might take into consideration Wells Capital Management's 10-year track history record, especially since some senior management left some of the firms. Mr. Rue stated that there was clearly a difference in turnover among the firms. He indicated that Lincoln Capital and Fidelity Investment were more active, whereas Wells Capital Management and Loomis Sayles were less active.

Mr. Vazquez expressed his concern about the size of the funds. He noted that Loomis Sayles had over $6 billion in the mandate, yet he has heard that other firms have $2-3 billion dollars in the mandate.

Mr. Rue explained Loomis Sayles is distinguished from other firms because they pursue a bigger universe. Mr. Rue stated if a firm has $6-9 billion dollars in management, it is going to be a challenge to get significantly different than the index. He continued to state Loomis Sayles would be the exception to the rule because they pursue a bigger universe.

Mr. Vasquez referred to tab three of the handout, called the correlation analysis, and asked Mr. Rue to explain the analysis and clarify what it means to the Board in terms of selection.

Mr. Rue explained that the correlation analysis is a measure of how two things move together. He stated there are two sets of correlation matrices; the first demonstrates the historical performance over the last three years and the other shows the historical performance for the last five years. He also stated there are two types of correlations - total returns and active returns. Mr. Rue explained the analysis is intended to emphasize the active return correlations because that is the correlation of two managers adding value with one another. He suggested the Board consider looking at the three-year period and Lincoln Capital's correlation with Wells Capital Management where it shows a correlation of 0.31. Mr. Rue pointed out that the lower the correlation between the managers the more they compliment each other, whereas a higher correlation indicates the managers are producing added value at the same time. He indicated when mixing managers one does not necessarily want the added value all to happen at the same time; instead one wants added value to occur differently so that when the total portfolio is put together, the added value over time across the entire portfolio is more consistent. Mr. Rue noted that Lincoln Capital and Wells Capital Management are probably the most complimentary in terms of their added value. He continued to state, on the other hand, Fidelity Investment and Lincoln Capital are almost the same because their correlation is 0.71, which is the highest point in that matrix. Mr. Rue continued to state, when looking at correlations of added value, 0.71 is very high. He indicated that from a historical perspective, the added value has been very similar as to when it has occurred and as to the extent it has occurred. Mr. Rue added the correlation analysis report can be used to obtain useful information to compare two correlation matrices, including the activities under both the three and five year performance period; it can also be used to compare two managers to determine if they compliment one another.

Mr. Moore commented he was interested in Mr. Rue's analysis and noted both Wells Capital Management and Loomis Sayles were similar due to low turnovers, but at the same time they had low correlations relative to one another. Mr. Moore stated he thought Mr. Rue was assuming Wells Capital Management works with a lower quality average in comparison to Loomis Sayles, who is a little more conservative and has a much longer weight of maturity. Mr. Moore asked Mr. Rue for further clarification. Mr. Rue explained Loomis Sayles tends to be a longer duration manager across all their products.

Ms. Calvache asked if the Board was picking one or two managers. Mr. Rue answered it was the original intent of the Board to pick two managers; but that can be changed.

Mr. Moore inquired of Mr. Rue why Wells Capital Management was not included in his initial evaluation of the RFPs, although there were three other finalists. Mr. Rue responded stating that it goes back to the RFP and how each manager was scored, which is summarized on page 11 under tab 3. He indicated that the scoring was pretty tight - Wells Capital Management having a score of 79, Lincoln, with the highest score on the RFP of 84, and the average score was 75. He further explained that they deemed Wells Capital Management a little bit weak organizationally. Mr. Moore asked Mr. Rue why did PCA categorize Wells Capital Management as a bit weak organizationally. Mr. Rue responded Wells Capital Management scored average organizationally, which was a result of the senior turnover, and the score that was given by investment professionals was not high enough.

Mr. Vasquez referred to PCA's performance summary charts both for the three-year and the five-year period, and noted that Loomis Sayles and Wells Capital Management stood out in terms of risk-adjusted returns. Mr. Rue said PCA's information ratios are pretty tightly bunched except on a five-year scale. He also stated that during Lincoln Capital's last visit to the Board, PCA heard Lincoln Capital's representatives talking about core fixed and how they were very risk controlled. Mr. Rue pointed out that also applies to Lincoln Capital's high yield product. He emphasized that Lincoln Capital tends to be a little more risk controlled, as does Fidelity. Mr. Rue asked the Board to look at the color charts and pointed out that Fidelity Investment's tracking error is slightly fewer than three. He also pointed out that Loomis Sayles' tracking error goes up to four and Wells Capital Management's tracking error goes up to six. He explained the chart shows there is a difference in risk management, which is reflected by these numbers.

Mr. Moore commented the two charts Mr. Vazquez inquired about showed Wells Capital Management as the lowest of the bunch. Mr. Moore further commented that Fidelity Investments and Loomis Sayles switch places in the three-year category, but Loomis Sayles performed well in the five-year, as well as in the three-year category.

President Romero commented he agreed with Mr. Moore. He also stated that Wells Capital Management and Loomis Sayles were his preferences. Mr. Rue agreed but reminded President Romero, with respect to Wells Capital Management's track record, they had only one proprietary account up until 2002.

Mr. Moore requested Mr. Rue to elaborate on Wells Capital Management's track record. Mr. Rue asked a Wells Capital Management representative in the audience, if there were any pension fund accounts. Mr. Thomas A. Harrison, Senior Managing Director of Wells Capital Management, responded in the affirmative and confirmed there were several pension accounts added recently.

Mr. Vazquez expressed he was comfortable with Wells Capital Management managing the account as a proprietary product through their own institution as a profit center. Mr. Vazquez stated if he could believe the information on the risk adjusted return, it seems to him that they have been investing conservatively. He then asked Mr. Rue if this was correct. Mr. Rue replied in the affirmative. Mr. Vazquez commented on Wells Capital Management's ability to achieve excellent returns due to added value and capital preservation. He then inquired about Loomis Sayles' ability to meet the insurance requirements. Mr. Rue replied that Loomis Sayles has not met the insurance requirements.

Ms. Bernstein stated PCA has spoken to each firm that was selected as the seven high yield finalists. She continued to state that the four the Board interviewed said they could meet the insurance requirements, including the waiver of subrogation and the $50 million for Errors and Omissions. She expressed that she believed Loomis Sayles might have written a letter or email stating they could meet the insurance requirements. Ms. Rubalcava informed the Board that they have not received a letter from Loomis Sayles, nor has she had discussions about insurance with any of the firms interviewed. President Romero requested PCA to conduct interviews on insurance. Ms. Bernstein stated PCA conducted interviews on insurance already, but PCA could not share with the Board what the candidates told them. Mr. Rue explained that was a different bidding process. Ms. Bernstein reassured the Board that all the candidates went through the interview process.

Ms. Calvache pointed out that Loomis Sayles and Wells Capital Management have low turnovers, low current missions, and a longer duration of managers. She stated Loomis Sayles and Wells Capital Management have similar styles, however the Board was advised to select candidate firms with different styles. Mr. Rue replied he tended to agree that they have different styles. Mr. Moore pointed out to Mr. Rue that if he were to look at the statistics in the handout, it shows Loomis Sayles and Wells Capital Management at a correlation of 0.43 on the active for the five-year period. Mr. Rue explained that Loomis Sayles and Wells Capital Management's correlations are relatively complimentary versus the other managers. He referred to the back of the handout and stated it showed the two firms held high yield bonds and held shorter maturing bonds. He further explained that Loomis Sayles tends to overweight longer with maturing bonds and that they are buying different segments. Mr. Moore commented that Loomis Sayles and Wells Capital Management are buying higher quality. Mr. Rue stated Loomis Sayles, as he mentioned before, has a broader universe and buys a little more than what other managers are not even considering, which makes them complimentary and which he feels is good.

President Romero asked for any discussion or motion.

Ms. Calvache stated she preferred Wells Capital Management and Loomis Sayles. Mr. Moore agreed with Ms. Calvache. Mr. Moore moved for a motion to select Wells Capital Management and Loomis Sayles for the high yield portfolio. Seconded by Ms. Calvache and carried unanimously after the following vote:

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

Mr. Vasquez asked if the two firms were in good standing – fee wise. Ms. Rubalcava replied that the question of fees was only asked of Fidelity Investments and Wells Capital Management. She stated no one asked if the fees were negotiable of Loomis Sayles and the other managers, but two of the managers who were asked have accounts with DWP and their fees are negotiable. She explained that perhaps the Board heard Wells Capital Management would negotiate; however she did not get word from Loomis Sayles about their fees being negotiable. Discussion ensued about the pursuit of the fees. Mr. Moore pointed out that Fidelity and Lincoln had a fee advantage, one being 0.38 and the other 0.401 with a 20% discount from Fidelity. Ms. Rubalcava informed the Board that Fidelity Investments offered the Board a second discount because of their financing. Mr. Moore stated Fidelity Investments was talking about a 10 basis point spread basically between the Board and the other players. President Romero reminded the Board there was a first and second motion already.

Ms. Rubalcava informed the Board that resolution 05-01 was revised and requested them to look at the revision.

Mr. Vazquez suggested the Board prepare a backup plan in case Loomis Sayles fails to meet the Board's requirements. Mr. Moore agreed and suggested making a motion or discussing the issue. President Romero stated that it should come back to the Board prior to going with the next manager. Ms. Rubalcava asked for clarification that Mr. Vazquez's suggestion was to go with the alternate manager if Loomis Sayles cannot fulfill the insurance requirements. President Romero agreed with Ms. Rubalcava to choose an alternative but it should come back to the Board for more discussion. Ms. Rubalcava informed President Romero that the issue could come back to the Board as long as it is understood that it will delay the process. President Romero commented that everything has been delayed for so long with this mandate he does not see a problem discussing it. He continued to state it would help the Board to explore all the options available, allowing the Board to make the best choice. Mr. Moore explained to President Romero that there is value to the suggestions for two reasons: 1) the timing issue of the selections, and 2) the Board informs the candidates the Board is prepared to move on to another finalist if the managers are not going to act in a timely manner to meet the insurance requirements. Mr. Moore further explained that by choosing an alternate manager, it sends a message loud and clear. President Romero said he agreed but he felt the item should come back to the Board for due diligence. Mr. Vazquez suggested that they choose now. President Romero agreed with Mr. Vazquez. Mr. Vazquez motioned that the Board choose Fidelity Investments as the alternate manager. Seconded by Mr. Moore and carried unanimously after the following vote:

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

Ms. Rubalcava asked if she understood correctly that, although the Board has chosen an alternate, President Romero still wants the Board to return for discussion. Mr. Vazquez responded in the affirmative and commented that at least the Board knows who to select without having to discuss the same issues.

2. Verbal Report from PCA and Staff on Custodian RFI.

Ms. Bernstein informed the Board that PCA is providing them with a verbal update on the status of the Board's search for a custodian bank. She stated she received responses back through the RFI from all five candidates and has completed phase one of a review of the potential candidates, which includes Bank of New York, the Board's current custodian, and four other nationally renowned custodians: J.P. Morgan, Mellon, State Street, and Northern Trust. Ms. Bernstein explained that in phase one, PCA essentially did a desk review in conjunction with input and help from the staff of the Board. She also stated that, PCA anticipates returning to the Board's next meeting on July 21st, with a full review for the Board. She added that, at that point, the Board might want to select a short list to take to the final selection process, and do onsite visits with the short list of candidates. Mr. Moore asked Ms. Rubalcava about the timing parameters and should it be a concern for the Board in regards to the schedules being laid out. Ms. Rubalcava explained that the Bank of New York contract ends August 30th and her intentions were to come back on July 21st to ask the Board to request an extension from Bank of New York while the Board goes through this selection process. Mr. Moore asked if there were any other problems. Ms. Rubalcava responded everything has been worked out.

3. **Resolution Extending TCW Asset Management Company's Contract (No. 128) from July 1, 2004 through July 15, 2004.**

President Romero asked if there was any discussion on item 3. Mr. Vazquez moved adoption of resolution 05-02 with the amendment. Seconded by Mr. Moore and carried unanimously after the following vote:

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

4. **Resolution Amending Parameters for Short-Term Investments.**

President Romero asked Ms. Bhatia if there was anything significant to discuss on Item 4. She responded in the negative. She however explained the Board already completed this and the previous resolution is attached to the package on page 4.3. She added the resolution only referred to the quarterly resolution for that month, so all Plan staff is doing is applying it so there would not be a need to come back each time for the quarterly resolution to approve this because we have the dates. President Romero motioned for approval. Seconded by Mr. Vazquez and Ms. Calvache and Mr. Moore simultaneously and carried unanimously after the following vote:

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

5. **Motion for Reconsideration of Board's Action of June 16, 2004 – Discussion and Possible Action on Transition Options – Merrill Lynch to T. Rowe Price – *Resolution Authorizing Transition for the Large Cap Value Mandate***

President Romero requested an item be placed on the agenda and handed the gavel to Vice Chairwoman Calvache to address the item. Mr. Romero expressed his concern about some issues that the Board did not have the luxury of looking at and discussing previously. He stated he was looking back at the old minutes, when the Board made the initial transition of the Large Cap Value, and he found there were some items the Board did not address when it made a decision. He stated he wanted the Board to be able to do their due diligence and discuss these items before continuing to go forward. Mr. Romero expressed his opinion that, although the Board may think everything is okay to proceed, he saw some value, at a minimum, in discussing the unresolved issues because the assets are currently invested in a low turnover portfolio, and it would not hurt to hold off for two more weeks. Mr. Vazquez requested clarification from Mr. Romero as to his concerns. Mr. Romero stated that he could not discuss it further because it has to be presented as a new agenda item to discuss in detail. He further stated that the next Board meeting is just two weeks away. Mr. Moore commented he was open to discussing the issue and he wanted to hear Mr. Romero's perspective, but Mr. Moore did not want to act on a motion to reconsider until he has had a discussion. Discussion ensued between Board members. Atty. Wilkinson stated he preferred the Board members state what the motion is for reconsideration in order to have that placed on the table, since that is the appropriate form of a motion, and then provide reason(s) for the motion and the next step would be to debate or discuss the motion. Atty. Wilkinson asked Mr. Romero if he could state what the motion is for the record. President Romero motioned for discussion and possible action for the use of transition management for the transition of the Large Cap Value mandate from Merrill Lynch to T. Rowe Price. Atty. Wilkinson stated that this would be for reconsideration of a previous action by the Board.

Mr. Moore asked Atty. Wilkinson for clarification of what the Board is proposing to do. He further commented that he is perfectly comfortable with discussing the request but, as far as acting on a motion to reconsider, the Board is opening up the matter and it will require four votes in order to deal with the issue. Ms. Rubalcava explained, that in terms of the procedures, when this item came to her attention, she asked Atty. Wilkinson how this procedure should be handled. Ms. Rubalcava then explained the Board could not discuss the issue itself; the Board could only discuss reconsideration. She continued to explain the procedures and she reiterated that, after the vote, it could then be posted for the July 21st Board meeting agenda. Mr. Moore conveyed to Ms. Rubalcava and to the Board he still needed some clarification, and since the motion has already been made, the Board could discuss the motion without voting on it. Atty. Wilkinson agreed. Mr. Moore stated that he is comfortable with the previous decision, and he is uncomfortable with voting to reconsider unless he is persuaded with good reason. Mr. Vazquez commented the Board should be given reasons at this point in time as to why it should go forward with this action, and he further stated to Mr. Romero that he was not certain he has heard that reasoning. Atty. Wilkinson asked if the motion has been seconded. The Board responded in the negative.

Mr. Romero stated that one of the issues that he was concerned about was that the question of what value does a transition manager represent was never answered. He stated that the issues was also T. Rowe Price turning over 86% of the portfolio at $0.02 a share, with between 25 and 31 basis points being the cost. He further commented he had asked staff for comparisons because the Board had an analysis from PCA based on their formula, but the Board did not have something actually from a custodian bank, for example the Bank of New York, indicating they were going to turnover the portfolio only 40%, as opposed to 86%. He continued that the Board did not have all available information when making its decision. Mr. Rue clarified that Mr. Romero requested a more precise estimate of the transition costs. Mr. Romero answered in the affirmative. He explained, when the Board initially made the decision of going with the transition manager, there was discussion that the government restricts the managers from doing certain things where the transition manager is unrestricted. He added he wanted to discuss value and whether there would be higher costs or savings with a transition manager. He informed the Board that two weeks of gathering information to show the Board was saving the Plan money or not, would not be a significant delay. Vice Chairwoman Calvache suggested documentation of the relative costs. Mr. Romero agreed to more documentation and suggested the Board follow protocol by basing their decision on total disclosure.

Mr. Vazquez stated the differences with the Large Cap Value were that the Board had two managers, whereas now they have one. He continued to recall that when this issue came to the Board during the last meeting, PCA recommended the Board award T. Rowe Price the position of Large Cap Value Manager. He further commented that he wanted to get PCA's perspective as to whether PCA had considered a transition manager, but he recalled PCA did not recommend anything with regard to a transition manager for this particular funding and he inquired why. Mr. Rue (PCA) asked Atty. Wilkinson if he could answer or discuss the matter. Atty. Wilkinson answered in the affirmative. Mr. Rue explained that Mr. Romero was correct in a sense and he continued that PCA had not done an extensive pre-trade analysis from Merrill Lynch to T. Rowe Price like they had done with the other manager searches. He said historically, BNY has done two transitions, which were both within the domestic equities arenas, different mandates, and with ballpark figures of 30 to 40 basis points in cost. He indicated he called BNY and spoke to some of their staff to check, from a historical perspective, if it is an appropriate range for what they would expect this transition cost to be. Mr. Rue stated BNY responded in the affirmative, which was not documented, but it was noted as a phone conversation. He said he understands Mr. Romero wants this item to be placed on the agenda, and for BNY to put together the actual estimates for this transition. Mr. Rue continued to state BNY will either come in with an estimate similar to previous transitions or it might be a little different. He continued to add if this gets placed on the agenda for the next meeting, BNY will have done a pre-trade analysis and will have an actual estimate. Mr. Rue further stated that the same information would be forthcoming from T. Rowe Price, and they will put together precise numbers, but it may not be any different from what he mentioned in the previous memorandum. He stated there was less of a reason to use a transition manager for this mandate than there is for other mandates.

Mr. Romero asked Mr. Rue if it was conceivable to have value added by using a transition manager in this case. Mr. Rue explained in his opinion, these estimates were guesses and that they really cannot have any confidence that there is going to be a significant difference one way or the other.

Mr. Vazquez asked where the Board stood in terms of funding, if there was a contract with T. Rowe Price, and if T. Rowe Price has met the insurance requirements. Ms. Rubalcava replied that T. Rowe Price has met all the insurance requirements except for one item, which is being discussed under the advisement of Mr. Neaman for recommendations. She informed the Board that Plan staff has been working on the contract. She clarified that at the meeting last month, PCA did ask BNY for information and what BNY gave them was a rough estimate. She further stated that what she heard the Board say was that they wanted to give BNY an opportunity to give a better estimate, to which Mr. Moore said it will still be an estimate, not a final count. She further clarified that PCA wrote the report based on the response T. Rowe Price and

BNY gave them. Mr. Romero disagreed with Ms. Rubalcava. He recalled that BNY was not asked until the morning of the meeting through a phone conversation. Mr. Rue informed the Board that it was not the morning of the meeting, but it was the day before the meeting. President Romero expressed he simply wanted to see if the Board can save some money for the Plan and postpone the process for two weeks. Atty. Wilkinson reminded the Board that a Board member still needed to second the motion. Vice Chairwoman Calvache seconded Mr. Romero's motion and asked if there was anything else for discussion.

Mr. Moore commented that with respect to how much portfolio turnover there would be during the transition, he would expect it to be the same if the Board transfers directly from Merrill Lynch to T. Rowe Price as opposed to using a transition manager. He stated he believes an important issue is how quickly the Board can get this mandate funded because it has continued for a lengthy period of time. He asked Ms. Rubalcava, if the Board were to change its transition manager, would this add a substantial amount of time that would be required to accomplish the transition. Ms. Rubalcava answered in the affirmative. Mr. Moore then stated that whatever number the Board will ultimately get from BNY; it is still only an estimate, as was the number given by T. Rowe Price. He continued that, when they had this discussion at the last Board meeting, during the other transition up for discussion, BNY frustrated him because the Board was given two different numbers, that included the issue of market impact that the Board thought had been included in the first number. He indicated that neither one of the managers was going to deliver a more reliable estimate than what Mr. Rue accomplished with the check he made with BNY and the numbers that he got from T. Rowe Price. Mr. Moore added that it seemed that the Board gains nothing from deferring this matter any longer and should just move ahead so as not to lose more time. Mr. Romero disagreed with Mr. Moore stating that 86% turnover of the portfolio is what T. Rowe Price estimates and he does not believe that will be the case with BNY, basically because BNY has its own internal process. Mr. Moore replied that only T. Rowe Price would know because they are the only ones who specify what the portfolio will look like upon completion. Mr. Romero stated T. Rowe Price is not going to know what BNY has to offer. Mr. Moore responded it is a matter of changing what Merrill Lynch had to what T. Rowe Price wants. He further stated BNY does not enter into the choice. Mr. Romero stated if BNY can do in-kind transfers, the Board is not going to pay as much, whereas, if 86% of our portfolio is traded, the Board will pay more. He continued to state that if BNY can cross 40% of the portfolio internally, the Board is not going to pay as much 60%. He emphasized that it will not hurt the Board to wait for at least two weeks before making a final decision. Discussion ensued among the Board members.

Mr. David Malecek (BNY) approached the podium.

Vice Chairwoman Calvache recognized Mr. Malececk.

Mr. Malecek stated he looked at the Retirement Plan website and saw that the Board did not have any agreement with T. Rowe Price. He also stated Merrill Lynch had a concentrated portfolio of 30 stocks, while T. Rowe Price had a portfolio style of 110 stocks. He added that the first two transitions came in at 16 basis points, which was right on target.

Mr. Rue stated that PCA came up with different implementation short fall numbers in the area of 30 basis points for those transitions, and he is not commenting but that is what the numbers show. Mr. Moore asked for clarification as to the point referenced by Mr. Rue. Mr. Rue explained to Mr. Moore that BNY says they executed the prior transitions at 16 basis points but he disagrees, saying it was more like 30 basis points.

Vice Chairwoman Calvache stated that there is a motion and a second on the table if the Board is ready to move on the motion.

Mr. Vazquez asked PCA to respond in regards to a discussion of savings the Plan would receive by having a transition manager because of their ability to cross where T. Rowe Price does not have the same ability and whether the Plan could potentially have any significant savings with that as a consideration. Mr. Romero commented that T. Rowe Price will be able to purchase the same securities but at a different cost.

Mr. Vazquez asked for clarification as to Mr. Romero's point of view.

Mr. Rue explained what Mr. Romero was requesting, and said what he wanted to see was the matrix for both managers; how much was crossed, how much was open traded, commission rates, and market impact estimates. He further explained that the Board has not seen these reports because they were only given estimates. He said he has received preliminary numbers from T. Rowe Price and they are going to be able to use crossing networks on a significant amount of the trades. Mr. Rue indicated when you go to the open markets where you cannot cross trade that is where the big costs lie. He stated he suspects BNY will have to trade the same securities in the open market as T. Rowe Price. Mr. Rue stated PCA would have a little more information when the managers provide them with their pre-trade analysis the next day. He expressed that it is speculation as to the costs until the two charts are produced from PCA.

Mr. Moore said he had no objection if PCA brings the charts to the Board on July 21st. He asked Ms. Rubalcava what type of impact would it have to make a change, which may cause a two-week delay in terms of being able to take final action with T. Rowe Price. Ms. Rubalcava replied there would be no difficulty in waiting the two weeks. Mr. Moore expressed he would not want to wait the two weeks, because he did not want to lose the time. Ms. Rubalcava responded that T. Rowe Price can continue to work on their insurance issues while Plan staff will work on the contract, but what will be set aside is the transition, which is very similar to what Plan staff did with Wells Capital Management and ING. She added those contracts were signed, but staff had to wait for BNY to finish their transitions contract. She reiterates staff can work on the insurance and the contracts and set aside the transition portion for July 21st.

Vice Chairwoman Calvache stated the Board is ready to move on the motion, and she asked all in favor and all opposed. Mr. Moore interjected and wanted to know what the Board was about to vote on now. Mr. Vazquez asked if they are undoing the action from the previous Board meeting by voting for reconsideration. Mr. Moore asked Atty. Wilkinson for clarification. He further stated that his understanding was, if the Board approves the motion to reconsider, the item will return to be discussed before the

Board. He continued to state that the Board is to do as he suggested, but if the Board does not act on the motion, the Board could put this back on the table two weeks from now as a motion to reconsider. He continued to state that, meanwhile, the Board would ask PCA to provide them with the matrix report they spoke of, and he is definitely not prepared to vote or vote on reconsideration today.

Ms. Rubalcava addressed Mr. Moore's concerns regarding reconsidering to motion. She explained, in the terms of procedure, the Board could vote today reconsider the earlier decision at the July 21st Board meeting. Ms. Rubalcava informed the Board that Mr. Rue could not bring the matrix report until the next meeting because staff has to post it, which is part of the Brown Act. She continued to state that if there is no motion, then Mr. Rue does not need to return on the July 21st Board meeting with the matrix. Mr. Moore expressed he felt the Board would not benefit from deferring action on the item until July 21st. Ms. Rubalcava stated the delay would be an additional two weeks because a vote has to be made on the reconsideration before Mr. Rue can come to the Board with the matrix report. She further commented that if the Board votes on the reconsideration today and votes yes for reconsideration of the item, then it will be posted for the July 21st Board meeting and Mr. Rue will return on July 21st with his matrix report but if the Board chooses to vote on July 21st for reconsideration, Mr. Rue cannot return until the next Board meeting; it cannot be done simultaneously.

Mr. Moore asked why this could not happen. Ms. Rubalcava replied she received her information on procedures from the City Attorneys Office.

Mr. Moore asked Atty. Wilkinson if Ms. Rubalcava was correct with her information. Atty. Wilkinson explained that the motion for reconsideration itself would be on a different day than the actual reconsiderations. He continued if the Board puts the matter of reconsideration off until the next meeting, the agenda item would have to be scheduled for another meeting for the actual discussion of the item to be reconsidered.

Mr. Moore suggested having two separate Board items at the next regular board meeting, one which is the reconsideration and the other one assumes the passage of reconsideration and the matter of transition for the portfolio that is currently being discussed. Atty. Wilkinson explained that having both items simultaneously is a problem with the Brown Act because it makes it seem like a "backroom deal", which obviously is not the case. Mr. Moore informed Vice Chairwoman Calvache if that is the case he will not be voting in favor of Mr. Romero's motion because the Board would be losing a minimum of a month's time, which is too much time as far as he is concerned.

Mr. Romero reminded Mr. Moore of his due diligence as a Board member to see if there is in fact a problem. Mr. Moore responded he felt that there has been enough due diligence and the numbers coming through are going to change anyway. Mr. Romero requested PCA give him numbers in order for him to make a decision. He also asked if Mr. Vazquez voted in favor of this request. Mr. Vazquez responded in the negative.

Mr. Romero commented that the motion to reconsider does not pass. Vice Chairwoman Calvache stated the motion, in this case, for reconsideration fails and returned the ceremonial gavel back to President Romero.

Ms. Calvache stated she wanted to make a point of clarification in fairness to all that were present at the table, that if Ms. Rubalcava had something to say to the City Attorney to say it aloud for the record so that the rest of the Board could hear it. Ms. Rubalcava stated that, for the record, she spoke to the Atty. because she was concerned that, as BNY got up to speak and as Mr. Rue spoke to this item, that the Board was venturing into the realm of the actual item and not the discussion for reconsideration. President Romero expressed to Ms. Rubalcava that Atty. Wilkinson is aware of that and he is the attorney and he will stop the Board members when they need to be stopped. Atty. Wilkinson acknowledged President Romero's comment.

6. Resolution on Reallocation of Available Cash Reserves from International Equity Mandate to Core Fixed Income Mandate.

President Romero asked if there was any discussion for Item 6. Mr. Moore asked PCA if there were any concerns regarding how this would ultimately impact the timing of funding the International portfolio, which the Board was going to fund with some of this cash. Mr. Rue stated he was not sure he could answer Mr. Moore's question.

He asked Ms. Rubalcava the status of the International Equity contracts. Ms. Rubalcava explained that of the three International Equity contracts, INVESCO was funded, Fidelity is at the end stages of drafting the contract, and then staff will go through the procedures of having the City Attorney, PCA, and President Romero sign the contract. She continued to explain that after the contract has been signed by the necessary parties, the Plan staff will move on to the final phase with Fidelity Investments. She added that Delaware Investments is the only one that is behind schedule. She stated, for example, if the Plan staff is finished with Fidelity Investments' contract in two weeks, the Board would have cash to fund Fidelity Investments.

Mr. Moore inquired if Boston Company would be the last manager whose contract the Board needs to finalize, and would they be funded out of the Boston Company portfolio anyway. Ms. Bhatia commented that there would probably not be cash there, assuming that the Boston Company would be the last one to be funded. She further stated that the Board should expect that, since Boston Company is managing equities currently, the Board would have to use proceeds from the sale of that equity to those equities to fund Boston Company mandate. She further stated there was some money, which is currently being managed by Northern Trust and Merrill Lynch, which would be transferred to partially fund Fidelity Investments in addition to the partial funding in cash.

President Romero commented that he has some concerns regarding this item and he spoke to staff about it yesterday. He added the cash the Board currently has was supposed to fund the International portfolios managers. He further commented that the fixed income was supposed to have been funded by the remnant portfolio with the Boston Company, and he is concerned that the Board did not discuss this item prior to or during the time the Board made a decision about the Fixed Income managers. He added he thought that would have been the time to bring up this issue. He stated that the Board was supposed to have discussed the funding of the Fixed Income at $1.5 billion, but assets and the markets have improved so the mandate is more than $1.5

billion. He expressed he believed the issue to fund in cash should have come before the Board earlier. President Romero further commented that the fact there may be two separate transitions concerns him because one transition may have been cheaper due to volume. He continued to express his concern that this did not come before the Board while the Board was discussing the transition and he fears the Board is going to lose money on it. He then asked for questions and comments.

Ms. Bhatia commented that when staff talked about this with President Romero and Ms. Calvache, she explained the market value of the assets had grown and the asset allocation structure required a certain percentage of assets to be funded to the fixed income managers. She informed the Board that staff did not make a decision to fund these managers with cash, which is the reason why the matter is before the Board. She stated Plan staff was not able to fund the managers with cash because the cash was earmarked for the International Equity mandate, which is the reason staff is asking the Board to approve that the cash be utilized to make up the total amount to be allocated to the fixed income mandate. She also pointed out that the BNY transition team requires a certain fee to be paid for the principal invested. She indicated it is a one basis point fee for the principal invested. She further explained that, on the previous resolution that had reserved the cash, the language states this amount is reserved for funding the International managers, not utilizing a transition manager. She also stated, following the same logic staff felt that there was no point having the plan pay an extra basis point for providing the cash to a transition manager. President Romero commented, this should be something for discussion before the Board prior to the transition so the Board can perform due diligence and determine whether this is the best way to transition. Ms. Bhatia commented this still is the call for the Board to make and the Board should proceed in whatever way it sees is best for the Plan.

Ms. Rubalcava commented that she heard Mr. Romero's concern but Plan staff believed it was following the Board's directions to do things as inexpensively as possible. She further stated that if the Board does not believe Plan staff took the right step, the Board could change staff's decision.

Ms. Calvache explained that he [President Romero] is trying to notify the Board ahead of time because if it comes afterwards it is already too late. Ms. Bhatia stated she disagreed because staff is not at liberty to make the decision to release the cash until the Board approves, but the Board had asked PCA to provide some information first. President Romero explained it was good to have something in writing whether or not the Board is saving money. President Romero continued to state the Board should see something from PCA showing the pros of using cash and the cons if cash is used, and the pros of doing one transition versus two transitions. He felt that it might be too late to even discuss having one transition and what savings there might have been. He stressed that this item should have come before the Board prior to executing any transition.

Ms. Rubalcava responded with an apology to President Romero and she reiterated that staff's intentions were good. She further commented that staff wants to follow the mandate and cut back costs; however, if she did something wrong, she stands corrected.

Mr. Moore commented that at the same time the Board should not be too harsh with staff on this because if staff has a good idea, and it certainly sounds like a good idea now, it is better that they bring it to the Board rather than feel trapped in a position that the Board took better than a year ago when the Board first talked about funding the international with cash. He continued that it is just a matter of looking at what might quickly accomplish the transition and at the lowest cost.

President Romero responded that he would like to be put on the record that he is not happy with this process. He expressed that this is a lot of money, and that he felt this is where an experienced plan manager might have done things differently. He then said to go ahead and allocate the cash and move on.

Ms. Calvache commented that Ms. Rubalcava does not have a financial background, although she has Ms. Bhatia to help her. President Romero commented that Ms. Bhatia has a lot of expertise in finance but not in transitions. He said there should be internal checks and balances including the consultant, money managers, the Plan manager, staff and the Board to ensure the right decision is made. He reiterated that he is not blaming staff.

Ms. Bhatia commented staff heard the Board, and for the next set of transitions, staff will come back with every item. Basically she said there is a funding schedule, and a mandate with a percentage applied to the market value of the fund, and in her mind, she felt staff was following the instructions of the Board. She further explained that this was an implementation issue of funding the managers and the reason the cash has come into play is because of an increase in the market value of the fund.

President Romero stated that he is not saying that every single decision should come to the Board but significant decisions should. He said the Plan manager should have brought it to the Board’s attention that the funds needed for the transition were more than $1.5 billion, and the Board would have decided where the extra money would best come from. He continued saying that now the Plan is possibly facing two separate transitions. He further stated that the Board is possibly delaying funding the international manager because the Plan does not have an agreement to get the remnant portfolio to fund the international mandate, which may take more time to fund. He said he feels there is a cost all the way down the line that an experienced Plan Manager may have avoided, and he is not comfortable with this and he wanted to put it on record.

Mr. Vazquez wanted clarification of the issue being discussed.

President Romero explained that the issue was the additional amount required to fund fixed income should have come before the Board when it discussed the transition to the fixed income, so the Board could have made a decision. He further stated he is not certain whether the transition has already started and the Board may be looking at two transitions.

Ms. Calvache commented that Board members are not allowed to ask if the transition has started.

Ms. Rubalcava commented that the Board said that you did not want to know when we fund, and only staff and a select few in the staff level would know when because it needs to be confidential in comparison. She further stated that the Plan is saving money because it is not paying a fee to BNY, and Wells Capital Management and ING are not charging the Plan. She further stated she understands the Board wants the fees to be low and wants staff to try to keep the fees at a minimum.

President Romero said he does not agree that the Plan is necessarily saving money because he does not have that information before him. He further commented that there is a market impact, trade by volume and other significant factors to be considered. He reiterated that the matter should have come before the Board earlier.

Mr. Vazquez asked PCA if they have a general view as to whether it would be more economical to give this cash to transition managers or directly to the portfolio manager.

Mr. Rue commented that it is cost neutral.

President Romero commented that he needed to see that in writing.

Mr. Rue stated PCA is writing something up for the Board right now, and he wishes PCA could have given something to the Board at the last meeting to help the process along.

President Romero commented he would like to see something from a transition manager to see if the Plan could have saved money. He said he would like a report from PCA and from BNY.

Mr. Moore responded, that the Board could do that but, from his own standpoint, getting estimates from vendors is useless, because they have no commitment to adhere to whatever estimates they give and are just playing games.

Mr. Rue commented to President Romero, that PCA did estimate that the cost of the transition would be approximately 30 basis points but there was a very wide possible range of 25 to 50 basis points. He continued to say that what the Board is talking about here is one or two basis points maximum and more likely zero.

President Romero commented that is what he meant by due diligence.

Mr. Rue responded in the affirmative, but continued to state that his own opinion is would be cost neutral.

Mr. Vazquez moved for approval of resolution 05-04. Seconded by Mr. Moore with a unanimous vote of the following:

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

7. Resolution Authorizing the Acting Retirement Plan Manager to Prepare the Necessary Arrangements for the Los Angeles City Clerk to Conduct an Employee Member Election.

Mr. Vazquez motioned to approve Board Resolution 05-05. Seconded by Mr. Moore with a unanimous vote of the following:

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

Ms. Calvache asked if they were going to have a schedule for the election.

Ms. Rubalcava responded as soon as the Plan staff starts talking to the City Clerk's office, staff is going to work with the City Clerk because that office conducted the last election.

The Board meeting was adjourned at 2:05 p.m.

JAVIER ROMERO
President

ADRIANA RUBALCAVA
Secretary

ROSANN LOPEZ
Recording Secretary