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

MINUTES - DECEMBER 1, 2004

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Ronald F. Deaton	General Manager
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member

Absent:

Gerard McCallum II	Commissioner

Others Present:

Robert K. Rozanski	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Michael Wilkinson	Deputy City Attorney
Sara Bernstein	Pension Consulting Alliance

President Romero called the meeting to order at 9:37 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Rozanski indicated there was a quorum of the Board.

PUBLIC COMMENTS

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

President Romero acknowledged and welcomed new General Manager Ronald Deaton to the Board.

1. **Recommendations and Possible Actions to Expedite Pending Transitions**

Mr.Rozanski stated at the last Board Meeting of November 17th, the Board expressed concern over potential delays regarding the funding of various transitions that have already been authorized by the Board as well as other pending contracts. Mr. Rozanski indicated that he requested that staff inventory all of the work that is currently under way to look for opportunities to expedite these transitions. He proceeded to provide a status update and recommendations.

International Developed Markets – The Boston Company

Mr. Rozanski stated staff has finalized a contract, it has been sent to The Boston Company and they are currently reviewing it. Mr. Rozanski noted, based on his discussion with Mr. Harkins that morning, there was one item in the contract The Boston Company needed to fix, and while there seems to be a few other items, they appear to be relatively minor. As far as insurance, Mr. Rozanski stated there is a Crime and Fidelity Insurance Policy that is outstanding as well as a Professional Liability policy that needs to be renewed. Both of these will be handled expeditiously and should be funded this month.

President Javier asked Avery Neaman, Risk Manager, if he concurred with staff's conclusions. In response, Mr. Neaman asked Mr. Robert Harkins of The Boston Company if he had any discussions with their risk manager, Jean Zozos, on the progress on getting insurance information in regards to the Crime Insurance and Professional Liability.

Mr. Rob Harkins of The Boston Company approached the podium.

Mr. Harkens responded, in regards to Professional Liability, The Boston Company received a letter dated November 12, 2004, from Mr. Neaman stating, "they were good to go." He inquired if it was just a question of getting an extension of the terms.

Mr. Neaman stated that the specific content of the letter should state that there is still an issue on the Crime Fidelity and WPERP is still owed an endorsement from National Union Fire for confirming our loss/payee status. He noted that it has been, "fairly long in the making." He also stated that their Professional Liability expired on November 1st.

Mr. Harkins stated the Professional Liability is complete and The Boston Company is all set on the agreement. He added that it is just a matter of renewing the forms so they have current dates. On the Fidelity/Crime Endorement, he stated they worked with Mr. Neaman back in September and agreed to loss/payee status and noted that Mellon is going through their own renewals with their carriers for 2005 which is the only thing that is holding things up and added it was a very minor thing. Mr. Neaman agreed that it was minor, but still important. Mr. Harkins agreed and noted he was not anticipating any issues regarding this and asked the same of Mr. Neaman. Mr. Neaman noted that the Crime Endorsement was taking a long time and that is why he wanted him to check with Jean Zozos. Mr. Harkins agreed he would check with her again. Mr. Neaman apologized to the Board for being so informal.

President Romero noted he felt the Board needs to hear this only because of the urgency of the Board's desire to transition and stated there are some simple delays that we can agree on informally on where the problems are and how we can take care of it. He asked Mr. Harkins if he could give him a window as to when this will be taken care of. Mr. Harkins assured President Romero that he would call their insurance person as soon as he left the meeting to get an update. President Romero stated the concern of the Board is, once we have the funding, we then find out that the company cannot meet the insurance requirements. Mr. Harkins assured the Board that the magnitude of this is not such that the Board will come back and not be able to fund them.

Mr. Avery noted that the same issues apply to Mellon as well. Mr. Harkins inquired if they were O.K. on all other issues, and Mr. Avery said yes.

Mr. Rozanski stated once we get these satisfied we also have a transition agreement with BNY that we have to put together to effect the funding. As soon as the insurance matters are cleared up and any residual changes to the contract language, staff is prepared to move forward.

Passive Domestic Equity – Merrill Lynch

Mr. Rozanski explained the Board authorized the Plan to transition the assets that were being managed by Northern Trust to Merrill Lynch. Merrill Lynch, in lieu of satisfying an incremental $25 million of Professional Liability coverage, offered a Letter of Credit to be issued by Wells Fargo Bank. They added they have now asked to substitute the Letter of Credit with Wells Fargo Bank with a Letter of Credit from BNP Paribas. Staff has looked at it in the financial area and determined that it was acceptable and the credit ratings are substantially the same. Risk Management has also looked at it and the only issue there is shoring up the language. He explained that staff will still be required to come back to the Board since there is a substitution with the different bank; therefore, we are requesting authority to proceed once Risk Management has authorized the language in that Letter of Credit. Staff is asking the Board for delegated authority to accept the Letter of Credit.

Mike Moore moved to give Plan Staff delegated authority to accept the Letter of Credit Merrill Lynch supplied from BNP Paribus. Seconded by Mr. Ron Vazquez and carried unanimously after the following vote:

Ayes: Calvache, Romero, and Deaton
Nays: None

High Yield – Loomis Sayles

Mr. Rozanski stated Plan staff has completed the contract and Loomis Sayles has sent staff the proposed revisions to the investment guidelines and they are currently being reviewed by Pension Consulting Alliance (PCA). In addition, there are outstanding insurance requirements. He stated that he did not know to what extent and turned to Avery Neaman for clarification. Mr. Neaman stated he believed it in the area of Crime and Professional Liability and Casualty coverages which are the basic ones that are required. Mr. Rozanski asked Mr. Neaman if he expected a problem in regards to insurance. Mr. Neaman stated that he did not want to state anything until he got back to the office to check. He said he would respond to Mr. Rozanski in an e-mail. Mr. Rozanski continued, assuming that the modifications to the guidelines are acceptable, then the only outstanding item would be fulfilling the insurance requirements before we can fund. If the Board chooses, they could provide delegated authority to staff subject to concurrence and a recommendation by PCA to incorporate any modifications to the investment guidelines. This is just a question on whether the Board wants to delegate the authority to staff to incorporate proposed changes that are approved and/or recommended by PCA.

President Romero inquired as to the specifics of the changes to the guidelines. Ms. Bhatia stated she did not have that information with her right now, but it had to do with the types of securities they can invest in. President Romero asked if they are recommending to invest in a lower or higher risk. Ms. Bhatia responded she believes some of them are of a different grade. President Romero stated he would like to see that before he gives a blanket authority. Mr. Moore asked if PCA had anything to contribute.

Sara Bernstein, from PCA, stated they are in the process of speaking with Loomis about their recommended changes compared to the Plan's existing guidelines and should have everything wrapped up by the end of this week. She addded she did not anticipate, after initial review, any major changes that are going to be of significant concern to the Board or PCA on behalf of the Board. Either way, PCA expects to have the dialogue completed and a recommendation to staff by the end of this week.

President Romero stated in that case he would like this to be put on the next Board agenda.

Mr. Vazquez asked Mr. Neaman if Loomis was close to completing their insurance requirements. Mr. Neaman responded he did not think they were close. Mr. Vazquez stated he felt this would be the overriding factor that may delay this. He asked Mr. Neaman what was the latest dialog he had with Loomis Sayles. Mr. Neaman responded that he keeps detailed, chronological notes, but he did not review them before he came to the meeting. He inquired if the Board would like him to phone Loomis. Mr. Vazquez told him no, but he would like him to give an update at the December 15th Board Meeting on the various groups and outstanding insurance issues as well as timeframes on when the issues will be resolved. Mr. Rozanski responded, as of the last Board Meeting, still outstanding was the Casualty coverages, Crime, and Professional Liability. President Romero suggested to Mr. Neaman that, in his comments to Loomis Sayles, he remind them that the Board does have the option to pursue another money manager if the matter of the insurance requirements are not expedited. Mr. Neaman replied in the affirmative.

Emerging Markets – T.Rowe Price and The Boston Company

Mr. Rozanski stated the Board had adopted a commingled account structure for these two mandates based on recommendations from PCA and the Investment Managers. In addition, the Board also adopted Investment Manager Guidelines based on a recommendation by PCA. He continued, staff has been working with T.Rowe Price in order to execute a contract to complete the transition, but they have informed staff that they are unable to comply with the insurance requirements as set forth in the initial RFP sent out by the Board. Mr. Rozanski commented, at this point, they have an option to either keep working with T.Rowe Price and try to get them to comply with the insurance requirements, or accept their basic insurance that is in force for all their present contracts, or select a separate account structure and require the Investment Managers to comply with the insurance requirements in the RFP. He stated Fidelity previously was able to comply with the insurance requirements by incorporating their group trust agreement as an attachment to the contract. Staff is not recommending that the Plan move to a separate account structure; as we understand it, it is very costly. He reminded the Board that we are transitioning to a new custodian bank, Mellon Bank, and this would require the Bank to open up some thirty-plus accounts in various Emerging Markets. He continued, the fee structure would go up significantly and there would be a significant burden on the staff as well. The plan needs to get relief in respect to those insurance requirements or work something out that is mutually acceptable with T.Rowe Price.

President Romero inquired as to how much is being allocated to Emerging Markets. Ms, Bhatia responded it was $45 million. President Romero noted that this was not a significant amount and stated he would like to see if we can informally contact the "runners-up" on the Emerging Markets and see if any of them, under a commingled status, would be willing to comply with these insurance issues. He stated he would like this issue brought back at the next Board meeting. He stated, if Fidelity has a "Favorite Nation Clause," which may be more specific to fees as opposed to insurance, it would be an idea to pursue. He felt, even if the Board took action on this today, they would not be able to transition in two weeks. He continued that he felt this was just a matter of information for the Board on which one of the other "runners-up" would be willing to comply with our insurance requirements under a commingled status.

Mr. Moore added that there were really two issues here. He asked if both of these firms have specifically said they will not take the road that Fidelity took and have both of these firms given us a "flat-out" no? Mr. Rozanksi replied, in the case of T.Rowe Price, yes. With respect to The Boston Company, after a discussion with Rob Harkins, Mr. Harkins indicated he does not anticipate a problem in complying because they incorporate by reference the insurance protections that are afforded in other contracts that are provided through Mellon. He continued, as far as complying with the City's business requirements, The Boston Company does not anticipate a problem because they also have contracts with Fire and Police Pensions and LACERS. Mr. Rozanski explained staff thinks they are O.K. with Boston, but will not know for sure until staff receives comments back from them on the proposed contract they have been sent.

Mr. Moore continued, the second part of the question he would ask, and he added that staff may not be prepared to speak on it now, but at the same time we get the other information President Romero is asking for, he would like some analysis by staff and other players to the extent that they contribute, that might include these two firms particularly and that would be an analysis of the fee differences because when they originally bid this, they were bidding a separate account and the fees reflected that. We then went to the commingled account in order to save money, so they bid assuming they were going to get a certain fee that would include the coverage of the insurance, but when they went to commingled they lowered that fee, so it seems to him that the Board needs to do enough analysis to figure out what is going on from their perspective and then analyze it from our own perspective.

Mr. Rozanski responded that if the Plan did go back to the separate account, it would probably delay the funding anywhere from three to five months. He continued that staff would have to go back to the Mellon Custodian Bank contract to see what their fees consisted of with respect to, whether or not they assumed a commingled account or a separate account, which would be much more burdensome or time-consuming for them to administer.

Mr. Moore replied that the Board recognizes that both the Emerging Market and the International Developed Markets have been doing very well this last year and this is one of the reasons why we, as an overall fund, are trailing significantly behind the performance of others – because we do not have participation in these markets.

President Romero asked Sara Bernstein, from PCA, if we assume The Boston Company would comply, what risks would there be in delegating the other $45 million that we are presently giving to T.Rowe Price to The Boston Company. How would that impact the Plan. He stated that he understood if PCA was not able to answer this question at the present time. Ms. Bernstein responded that PCA recommended using two managers because they typically recommend diversification of managers just to diversify risks so you are not having all your risks in one spot. She stated that she will come back with a recommendation. She added that would be about $90 million and the Plan would have one Emerging Markets manager and at that point, she stated she feels that this would be acceptable as an option, given the size of the Plan and the amount of money going into Emerging Markets. She reiterated that she will come back to the next meeting with a recommendation and added that PCA does have other clients that just use one manager for Emerging Markets. President Romero asked if there were any other questions for Ms. Bernstein.

President Romero acknowledged Mr. Harkins, from The Boston Company. Rob Harkins introduced himself to the Board and stated that he would first like to respond to Mr. Moore's question. He stated that as far as fees, it does not matter to The Boston Company whether the Plan goes separate or commingled, the charge would be the same. He added that it is cheaper for the Plan to go commingled from a number of different standpoints – transactions costs are probably the highest in all capital markets in the Emerging Markets and, in a pooled fund, the Plan will benefit from economics of scale as well as access to liquidity. Also, The Boston Company picks up independent audit, accounting, and account reconciliation in the pooled vehicle. This is not something that would be an implicit cost to put on the Plan. Also, on the custody, the Plan gets charged the one line item versus having a separate sub-custodial relationship in each of the Emerging Market countries. This is in addition to the cost of opening and time of opening. The Boston Company is indifferent to you. He stated he recommends that the Plan go commingled just from seeing other people. He gave LACERS as an example of another account of theirs – they have about $170 million with them and they have a separate account. He added that they also have a large staff that is very, very skilled – they know what the derivatives laws are in India and the forms that need to be filled out to say that they are doing it correctly. He continued, in Emerging Markets there are some special situations due to capital flows into and out of the countries have a little more restriction on them than in developed markets. This means there is a lot of different paperwork that has to happen. He suggested that The Boston Company put City Attorney, Mike Wilkinson, in touch with their contracts person to hear his concerns because this is one of the ways they have been able to address this in the past. He stated The Boston Company already has a business tax certificate and has met all the insurance requirements. He added that their forms are not specific to any one mandate, so the same forms will cover Mellon's Custody as well as The Boston Company International and The Boston Company Emerging, so he feels they can make this work and that it is worth the try given the fact that if it doesn't and the Board goes separate, the burden will fall upon staff in the short term as far as the amount of work they have to do. Finally, he suggested that if staff does contact other people, staff should ask that they put in writing that they will comply with our insurance requirements, because everyone up front will want to have the business and will verbally agree to it. Mr. Harkins asked the Board if they had any further questions.

Mr. Moore responded that he would appreciate it if Mr. Harkins would address the comments that were made in the City Attorney Mike Wilkinson's memo where he raised concerns regarding the contracts and basically indicated that The Boston Company was going the other way in a couple of key areas of protection. Mr. Harkins stated that he did not see the memo and has not seen the specific issues but understands it encompasses indemnification insurance and business tax certificate and from his brief conversation with the contracts people this morning they stated that there are areas which we have not been able to address by side letter in the past. Mr. Moore spoke to Mr. Wilkinson and stated that he did not know if Mr. Wilkinson wanted to speak to it, but one of the comments made was, "The Boston Company's contract has insurance language that is almost the mirror of our standard provision. That is why DWP's contract protects the plan and the Board. The Boston Company contract provides strong protection to their firm, and weak protection to the Board and the Plan." Mr. Wilkinson stated that he is not an insurance expert; this was just his quick view and he defers to Avery Neaman for the insurance issues. He reiterated that, yes, that is exactly what he said, but he believes he added later that Mr. Neaman is the expert. He stated that perhaps Mr. Neaman had some thoughts if the Board has any questions on that part.

Mr. Neaman approached the podium. After reintroducing himself as the Department's Risk Manager and the WPERP's Risk Manager, he stated The Boston/Mellon agreement essentially does as Mr. Moore stated, turns the protections in favor of Boston/Mellon so much so to the extent that the Department is required to indemnify them so if any claims come against them, as a result of our alleged acts of errors or omissions, we are then required to defend Boston against those claims with the City Attorney and pay for those claims. He explained that this is the reverse of what the Department always requires in Investment Manager contracts. As far as the insurance, he stated that his understanding is, because of the "Most Favored Nations" clause and the underlining trust agreement that cannot be modified, they are not able to provide any insurance protections to the WPERP as would be required in the RFP in the normal Investment Manager contracts. President Romero inquired if staff has seen a copy of the Favorite Nation funds or company. Mr. Neaman replied that the "Most Favored Nations" clause in his impression is a guiding principle that goes hand-in-hand with our trust agreements. President Romero stated that this is beyond his area of expertise and mentioned that Fidelity has "Most Favorite Nation" clauses along with their fees -- how is it that Fidelity can make an exception on the insurance as opposed to other money managers. Mr. Neaman explained that they are doing it by attaching their trust agreement to our standard investment management agreement which has insurance requirements. He continued that he believes Fidelity is the largest money manager and can't speak as to why T.Rowe Price or The Boston Company states they cannot. President Romero responded there may be other money managers that would be willing to do it. Mr. Neaman responded in the affirmative.

Mr. Moore suggested that since we are going to be bringing this matter back to the Board at the next meeting, staff needs to make sure they have all the issues covered for the next meeting and report to the Board and take it up then.

President Romero responded in the affirmative.

Mr. Harkins expressed that he would like to make one final point. He stated that the Board needs to draw this back into the larger picture. He handed the Recording Secretary a list of current participants in their pooled vehicle letting the Board know if they agree to go into this we would be with the same pension plan as J.P. Morgan, Exxon, the County of Santa Barbara, Cites of New York, Baltimore and San Jose. He reiterated that this is not a new fund that WPERP will be going into, but an established fund. He stated other institutions very similar to WPERP have done this same review.

President Romero thanks Mssrs. Neaman and Harkins.

Mr. Vazquez asked that staff prepare something for the next Board meeting that the Board can act on to move the money to one manager to the extent that we can get someone that can comply with all the requirements. Mr. Rozanski replied in the affirmative.

Custody Agreement – Mellon Bank

Mr. Rozanski stated that the WPERP plans to transition on January 1, 2005, and staff is trying to finalize the contract and have gone back and forth one round. Staff is now waiting for comments back that should come in today. He added that this is a high priority as we do not currently have the tools necessary to monitor compliance with the Investment Guidelines that the Board has set out, as well as we do not have the ability to monitor the performance of the individual managers. He continued, as this is a high priority, a number of staff is working to complete this and believes staff will be able to execute a contract this month in order to effect the transition on January 1st. He reiterated that this was an update, but wanted to make sure the Board viewed this as a high priority so Plan Staff can remain focused on it.

RFP – Investment Consultant

Mr. Rozanski stated staff has received responses from a number of respondents, has reviewed and evaluated the responses, and is preparing to present recommendations for the short list at the next Board meeting on December 15th. He added this is also viewed as a priority since the current Investment Consultant is under a contract extension. President Romero inquired as to how many responded and how many are on the short list. Mr. Rozanski replied that six have responded and staff is recommending that three be short-listed. President Romero asked that staff provide the Board the criteria used to select the short list. Mr. Rozanski responded that basically staff was looking at the capabilities of each of the firms, as well as the fee structure. He explained that the fee structure itself is a bit difficult to assess and has required a lot of follow-up because, with respect to alternative investments and real estate, the 4% allocation that we have, there are a number of assumptions that had to be made by each of the firms in terms of whether we were going, for example, into a fund-of-funds for hedge funds or private equity investments, to what extent real estate direct investment vs. a pool such a real estate investment trust or some other some other sort of fund. Staff was looking at that and trying to rationalize those costs, but what staff will probably recommend at the next Board Meeting is that we go back to the finalists, at a minimum, and provide them with some basic assumptions to use so staff can compare each of the fee structures on the same basis recognizing that, at this point, staff does not know to what extent and how the Plan is going to invest in those particular allocations. Mr. Vazquez asked the timeframe in bringing this to the Board. Mr. Rozanski responded that staff is currently reviewing the evaluation and is expecting to have this item on the next Board agenda for December 15th.

The Board Meeting adjourned at approximately 11:16 am.

JAVIER ROMERO President	ROBERT ROZANSKI Secretary

IRENE COLON
Recording Secretary