

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

**MINUTES**

**JULY 10, 2013**

**Board Members Present:**

Javier Romero, President  
Ronald O. Nichols, General Manager  
Barry Poole, Regular Member  
Robert Rozanski, Retiree Member

**Board Members Absent:**

Mario Ignacio, Chief Accounting Employee  
DWP Commissioner – Vacant  
Vice President - Vacant

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Mary Higgins, Asst. Retirement Plan Manager  
Jeremy Wolfson, Chief Investment Officer  
Mary E. Alvarez, Utility Executive Secretary

**Others Present:**

Marie McTeague, Deputy City Attorney

President Romero called the meeting to order at 9:04 a.m.

Ms. Bhatia indicated a quorum of the Board was present.

**Public Comments**

Ms. Alvarez reported that there was one request for public comment.

Mr. James Davis inquired about the appeal process for his personal case that was denied.

Ms. McTeague, who was familiar with Mr. Davis' case, advised the Board on the status of his case. Ms. Bhatia also advised that the Retirement Plan Office had communicated with Mr. Davis on several occasions via telephone and written correspondence advising him on the provisions of the Plan. Mr. Davis inquired why his documentation was not accepted to remedy the case.

Mr. Romero advised Mr. Davis that he would discuss the matter in detail with counsel and Staff after the Board meeting and contact Mr. Davis directly.

**1. Approval of Minutes for June 12, 2013, Regular Meeting**

*Mr. Rozanski moved that the Board approve Item 1; seconded by Mr. Nichols.*

*Ayes: Nichols, Poole, Romero, Rozanski*

*Nays: None*

*Absent: Ignacio*

*THE MOTION CARRIED.*

## **2. Discussion of Ratification of Board Action to adopt the Actuarial Experience Study of the Water and Power Employees' Retirement Plan – July 1, 2009, Through June 30, 2012**

The item was deferred.

## **3. Discussion of Global Real Estate Securities Mandate**

Mr. Wolfson reviewed the history of the Global Real Estate Securities Mandate (Global REITS), stating the Board hired European Investors, Inc. (EII), and Dimensional Fund Advisor (DFA) to each manage \$25 million in the Global REIT portfolios in 2012. Mr. Wolfson noted that the Plan was already in the process of funding DFA according to the Board approved pacing schedule. Mr. Wolfson further explained the Board made a decision to terminate the contract with EII, which had not yet been funded (due to the non-disclosure of fees), at the Board meeting in June. Mr. Wolfson turned the discussion over to Mr. Bill Foster, Courtland Partners, Ltd. (Courtland), to elaborate.

Mr. Foster referenced the original list of six finalists from the Global REITS interviews held last year. The finalists included DFA, EII, Heitman, LaSalle, CBRE Clarion, and Delaware Investments. Mr. Foster explained that the Board originally selected DFA and EII to each manage one half of the \$50 million mandate to serve as complementary managers – DFA has a quantitative investment style and EII has a bottom-up, fundamental style. Mr. Foster went on to briefly cover the reasons why the relationship with EII fell apart, which primarily centered around an entry and exit fee totaling more than \$250,000 that was not disclosed nor considered during original selections.

Mr. Foster explained that Courtland reassessed the qualifications of the remaining four finalists according to performance through April 2013, with regards to: investment vehicle offerings, insurance, and consistency of qualitative factors, to how they ranked at the time of the original interviews. Mr. Foster noted that Delaware was disqualified due to the firm's inability to meet the Plan's insurance qualifications. He emphasized that Courtland utilized various statistical metrics when analyzing the remaining three managers' performance data and ensured that the qualitative factors still held true for the three remaining finalists (Heitman, CBRE Clarion, and LaSalle). Considering the aforementioned, Courtland recommended that the Board select Heitman to manage the \$25 MM global REITS portfolio with paced funding to match DFA. Mr. Foster also noted that Heitman came in a close third in the original interviews as Heitman had a fundamental strategy that complements DFA as well as good historical performance.

In response to Mr. Romero's inquiry for clarification on how Delaware Investments specifically could not meet the Plan's insurance requirements, Mr. Foster stated he could not provide the specifics, but indicated it had to do with the Plan's fidelity bond insurance requirements.

In response to an inquiry from Mr. Rozanski who had pointed out an "asterisk" contained in Courtland's memo that highlighted Heitman's standard deviation that increased from the 1-2 year period to the 3-5 year period, Mr. Foster explained that Courtland had to use two different benchmarks when calculating Heitman's long-term performance and risk characteristics so the risk metrics were not absolutely comparable.

Ms. Bhatia noted that Heitman's fees appeared to be high and inquired if they were negotiable. Stanley Kim of Courtland confirmed that Heitman's fees were negotiable.

In response to Mr. Wolfson, Mr. Kim confirmed that Heitman had no entry and exit fees.

Mr. Nichols requested confirmation on the negotiability of fees, wherein Messrs. Foster and Kim confirmed.

*Mr. Nichols moved that the Board approve Resolution No. 14-02 to select Heitman to manage the \$25 million global real estate securities mandate; seconded by Mr. Rozanski.*

*Ayes: Nichols, Poole, Romero, Rozanski*

*Nays: None*

*Absent: Ignacio*

**THE MOTION CARRIED.**

The Board recessed the meeting at 10:28 a.m. and returned to resume the meeting at 10:34 a.m.

#### **4. Presentations of Proposals and Interviews for Hedge Fund Manager**

Mr. Wolfson stated the purpose of the Special meeting of the Retirement Board was to interview four candidates for the new Divergent Fund of Hedge Funds Investment Manager for the Real Return Asset Class. He noted the Real Return Asset Class comprises 6% of the Plan's entire portfolio, and of that 6%, the Board approved an allocation of 15% to Divergent Fund of Hedge Funds. Mr. Wolfson also added that the selection of the other component of the hedge fund mandate, the Convergent Fund of Hedge Funds, was concluded with the selection of Morgan Stanley during the Special Meeting on June 25, 2013. Mr. Wolfson suggested Board members to inquire about management and set-up fees from each candidate.

Mr. Romero acknowledged David Sancewich from Pension Consulting Alliance (PCA) who provided the background on the Divergent Fund of Hedge Funds Investment Manager search.

The Board then interviewed the following candidates:

- a) GAM
- b) Grosvenor Capital Management, LP
- c) K2 Advisors, LLC
- d) The Permal Group

Upon conclusion of the interviews, discussion ensued among the Board Members, PCA, and Staff regarding the interviews and the individual Board Member's choices. The Board Members unanimously selected GAM as the Plan's Divergent Fund of Hedge Funds Investment Manager.

*Mr. Rozanski moved that the Board select GAM as the new Divergent Fund of Hedge Funds Investment Manager, subject to negotiation of an acceptable fee; and that Staff negotiate the fees and contract; seconded by Mr. Nichols.*

*Ayes: Nichols, Poole, Romero, Rozanski*

*Nays: None*

*Absent: Ignacio*

**THE MOTION CARRIED.**

**5. Retirement Plan Manager's Comments**

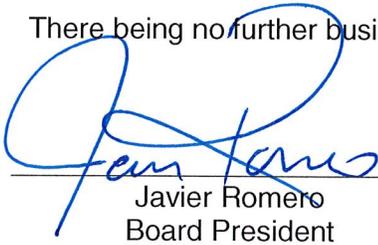
Ms. Bhatia reported on the following items:

- The Retirement Board member election results were expected to be certified by the City Clerk on July 18, 2013. The results were expected to be presented to the DWP Board of Commissioners on August 6, 2013.
- The Med B Plan was being worked on by System Consultants, functionality had been delivered and Staff is in the testing process, and the Health Plans Office is in the process of testing it, as well.
- Retiree and Active Employees Newsletters are at print shop and were expected to be out soon.
- Resources continue to be needed to work on California Public Records Act requests.

**6. Future Agenda Items**

Mr. Romero requested introduction of new employees at the next meeting.

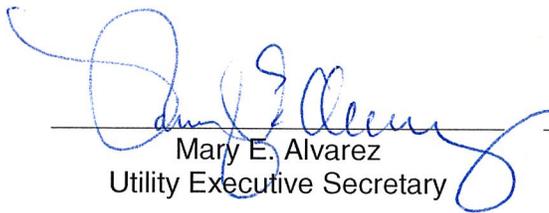
There being no further business, the meeting adjourned at 11:32 a.m.

  
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Javier Romero  
Board President

10/15/13  
Date

  
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Sangeeta Bhatia  
Retirement Plan Manager

10/15/13  
Date

  
\_\_\_\_\_  
Mary E. Alvarez  
Utility Executive Secretary

Date