

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
March 24, 2016**

MEETING MINUTES

There being a quorum, Paula Weiss, Esquire, Alternate, Deputy Director of Finance, called the Investment Committee Meeting to order at 9:22 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16th Floor.

Present:

Rob Dubow, Finance Director
Paula Weiss, Esquire, Alternate, Deputy Director of Finance
Alan Butkovitz, Esquire, City Controller
William Rubin, Alternate, First Deputy City Controller
Sozi Pedro Tulante, Esquire, City Solicitor
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor
Brian Abernathy, Alternate, First Deputy Managing Director
Brian Albert, Alternate, Deputy Human Resources Director
Brain Coughlin, Trustee
Carol G. Stukes-Baylor, Trustee
Ronald Stagliano, Vice Chair, Trustee
Veronica M. Pankey, Trustee
Matt Stitt, City Council Designee

Francis X. Bielli, Esquire, Executive Director
Brad Woolworth, Chief Investment Officer
Christopher DiFusco, Esquire, Director of Investments
Dominique A. Cherry, Senior Investment Officer
Aubrey Hassan, Investment Analyst
Kristyn Bair, Investment Analyst

Also Attending:

Adam Coleman, Esquire, Assistant City Solicitor
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor
Jeffrey Hornstein, Director of Financial & Policy Analysis, Office of the City Controller
Lavonia Jenkins, Administrative Technician
Erica Marable, Clerk Typist I
Jackie Dunn, Finance
Mark Johnson, Cliffwater
Will Green, Loop Capital
Robert O' Donnell, O'Donnell Associates
Andrew Bernstein, Capital Dynamics

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Patrick McCauley, Capital Dynamics
Andrew Beaton, Capital Dynamics
Matthew Coyne, Torrey Cove
Michele Davidson, Torrey Cove
David Fann, Torrey Cove
Ira M. Lubert, LEM Capital
Jay J. Eisner, LEM Capital
Mike Dunn, Deputy Communications Director
Claudia Vargas, Philadelphia Inquirer
Pam McCue, Finance Investment News

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Agenda Item #1 – Approval of the minutes for February 25, 2016

Ms. Weiss opened the meeting and requested approval of the Minutes for February 25, 2016. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

Agenda Item #2 – Real Assets – LEM Multifamily Senior Equity Fund IV, L.P.

Mr. Brad Woolworth said the city is currently invested in LEM III, and is doing quite well. Mr. Christopher DiFusco added that \$15 million was originally invested in LEM III, then another \$10 million in capital was added. LEM invests exclusively in Class B Multifamily properties throughout the lower part of the US.

Mr. DiFusco said that the staff has negotiated a seat on the advisory board.

Ms. Weiss asked about the expected return for Fund III. Mr. Woolworth answered 15% to 18%.

Mr. Rubin asked who is seated on the advisory board. Mr. Woolworth said members of staff and other limited partners. Mr. DiFusco added either Mr. Woolworth or himself would represent the investment staff.

Mr. Rubin asked how it will work if there is a disagreement on what the firm wants to invest versus what the Board wants. Mr. Woolworth answered it probably would not be a discussion about their actual investments. If a disagreement does arise, which is rare, a third party would be brought in to evaluate.

Mr. Rubin asked what the advisory board specifically does. Mr. Woolworth said the board talks about evaluations, accounting, progress of the fund and updates from quarterly meetings.

Mr. Bielli asked if the scope of the advisory board is written in the contract. Mr. Leonard said that within the documents there are provisions for an advisory board and the things Mr. Woolworth mentioned are standard.

Mr. Rubin asked since it is an investment dealing with construction, do we have the ability to bring up such issues as: women and minority participants, who gets the contracts and aspirational goals that do not fall under the guidelines of our seat on the advisory board.

Mr. Woolworth stated that there is nothing preventing us from bringing those questions to the table but we wouldn't want to wander into the realm of general partner.

Mr. Stagliano asked the size of the fund. Mr. Woolworth stated \$226 million was the capital raised and they are targeting \$300 million.

Ira M. Lubert and Jay J. Eisner, LEM Capital, made the presentation to the Board.

Mr. Stagliano asked LEM about fee structure. Mr. Lubert answered they have fee breaks that start at investments of \$50 million to \$75 million. There is a %1.5 percent management fee up to \$50 million, above that is 1.25% and above \$75 million is 1.00%.

Mr. Dubow requested a motion to invest \$25 million into LEM. Mr. Rubin made the motion. Mr. Albert seconded. Ms. Veronica M. Pankey abstained. Motion carried.

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Agenda Item #3 – Capital Dynamics Mid-Market Direct IV (U.S), L.P

Mr. Woolworth stated that Capital Dynamics has a deep track record and has been investing for a long time. Mr. Woolworth recommends a \$50 million allocation divided into two sections: \$25 million into the main fund and the remaining in a side-car, parallel fund, which provides customization and better economics.

Mr. Dubow asked how their deals in Europe translate to domestic success. Mr. Woolworth said the analysis is basically the same whether it be Western Europe or North America.

Mr. Dubow asked what will happen if the sponsor would go away and if it is risky. Mr. Woolworth said the sponsor has actually increased their network over time.

Mr. Bielli asked how we would anticipate the deal by deal approval process. Mr. Woolworth said this partnership is still subject to final negotiation.

Mr. Woolworth introduced Andrew Bernstein, Patrick McCauley and Andrew Beaton of Capital Dynamics to make their presentation.

Ms. Stukes-Baylor had concerns about their demographics. Ms. Stukes-Baylor asked why there were no women on the investment committee, although 48% of the company is female.

Mr. McCauley answered that nearly seven years ago a diversity policy was enacted in the firm. This has led to increased diversity in Europe and out of the nine individuals on the executive committee, four are women or minorities. The CFO and CCO are women or minorities and the head of the US primary investment team is a woman.

Mr. Dubow asked for any questions. There were none.

Along with Matthew Coyne and Michele Davidson of Torrey Cove, Mr. Woolworth asked the Board if there were any questions or concerns.

Mr. Bielli asked Mr. Leonard and Mr. Sozi Pedro Tulante if approving on a deal by deal basis would change liability versus a regular investment manager decision.

Ms. Jo Rosenberger-Altman answered that it is outside of the normal LPA framework and under review by the Law Department.

Mr. Dubow requested a motion. Mr. Rubin made the motion to make both \$25 million dollar investments, however, in 30 days a report has to be presented on how the second account will be structured internally, how decisions will be made and what decisions are being considered. Ms. Stukes-Baylor seconded. The motion passed.

Agenda Item #4 – Flash Report for Period ended February 2016

Mr. Woolworth provided an update on the portfolio. Focusing on Hedge Funds, Investment Staff reached out to three of the best performers to negotiate better economics. Two of the three hedge funds have presented solid initial offers. However, Axonic Capital informed us that they were unwilling to negotiate new terms or fees.

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Mr. Woolworth made a recommendation to end the partnership based on their unwillingness to negotiate.

Ms. Weiss requested the motion. Ms. Stukes – Baylor made the motion to terminate Axonic Capital. Mr. Abernathy seconded. There was one opposition, Veronica M. Pankey. Motion carried.

Mr. Butkovitz asked about Axonic's returns. Mr. Woolworth stated that returns have been decent but they are the most expensive manager in the portfolio.

Mark Johnson of Cliffwater, presented the Flash Report.

Mr. Woolworth commented on the capital the city would be sending the plan on March 28, 2016. Mr. Woolworth recommended a 70/30 split, in which 30% will be placed in investment grade fixed income that acts as a hedge during market downturns. The remaining 70% will be placed in a large cap S&P 500 index. Staff would dollar cost average a large portion of the S&P 500 capital over a period of three months

Ms. Weiss asked for any questions. There were none.

Agenda Item #5 – CIO's Report.

Mr. Brad Woolworth presented the reports. The total security lending income for the month of February 2016 was \$136,241, which is in line with expectations.

Mr. Woolworth updated the Board that the volatile markets have moved Quality D slightly up but it is showing signs of stabilization.

Ms. Weiss asked about the current search for a secondary market for the portfolio. Mr. Woolworth commented that they are still in the process of the search but as the market stands, it is not a good time to sell the portfolio since it would result in a significant loss.

Mr. Woolworth commented that the Diversity AUM report is in line with expectations.

Mr. Woolworth reviewed the upcoming Board calendars: Next meeting is April 28th, the May 26th meeting was moved to June 2nd and the June meeting is scheduled for June 23rd. There was discussion about combing the June meetings

Ms. Weiss asked if there was any other business, there was none.

At 11:30 a.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

At 11:32 a.m., Ms. Weiss convened the Board of Pensions and Retirement Meeting to affirm the actions taken at the Deferred Compensation Plan Committee Meeting and the Investment Committee Meeting. Mr. Albert made the motion. Mr. Coughlin seconded. The motion passed.

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Ms. Weiss asked for any other business.

Ms. Veronica M. Pankey requested a motion about the annual conference meeting in May in San Diego.

Ms. Weiss requested a motion for any trustee wishing to attend the annual conference in San Diego taking place in May 2016. Ms. Veronica M. Pankey made the motion. Mr. Stagliano seconded. The motion passed.

Ms. Weiss asked if there was any other business. There was none.

At 11:33 a.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Albert made the motion. Mr. Stagliano seconded. The motions passed.

The Investment Committee of the Board of Pensions and Retirement approved the Minutes on

Rob Dubow
Board Chair