

**THE BOARD OF PENSIONS AND REQUIREMENT
INVESTMENT COMMITTEE MEETING
MAY 27, 2015**

MEETING MINUTES

There being a quorum, Rob Dubow, Finance Director, Board Chair, called the Investment Committee Meeting to order at 9:50 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
William Rubin, Alternate, First Deputy City Controller
Francois Dutchie, Esquire, Alternate, Divisional Deputy City Solicitor
Patricia Fitzgerald, Alternate, Hiring Service Manager
Brian Albert, Alternate, Deputy Human Resources Director & Managing Director designee
Carol G. Stukes-Baylor, Trustee
Ronald Stagliano, Vice Chair, Trustee
Andrew P. Thomas, Trustee
Folasade Olanipekun-Lewis, City Council Designee

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

Also Attending:

Ellen Berkowitz, Esquire, Deputy City Solicitor
Katherine Janoski, Esquire, Assistant City Solicitor
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor
Jackie Dunn, Finance
Lavonia Jenkins, Administrative Assistant
Donna Darby, Clerk Stenographer II
Stephen Nesbitt, Cliffwater
Will Greene, Loop Capital

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Agenda Item #1 – Approval of Minutes for April 30, 2015

Mr. Dubow opened the meeting and requested approval of the Minutes for April 30, 2015. Mr. Albert made the motion. Mr. Stagliano seconded. Mr. Dutchie abstained. The motion passed.

Agenda Item #2 – Cliffwater Presentation on Hedge Fund Fees as a Percentage of Hedge Fund Alpha

Mr. Nesbitt began by saying that the presentation was a follow-up from the early April education seminar, where Cliffwater provided an overview on Hedge Fund performance and components of Hedge Fund returns. The idea was to inform the Board as to whether or not the investments were doing well or poorly.

He addressed the Board's request for Cliffwater to dissect the alpha into gross and net performance, to evaluate fees.

Cliffwater's percentage expectation for a good performing program was the gross excess return [alpha], of at least 60% to the investor and no more than 40% to the manager.

Board discussion with Cliffwater delved further into some of the fund managers' returns, where beta exceeded alpha, as well as the percentage split in fees. In cases where the Board was not satisfied, Cliffwater's recommendation was that the Board could negotiate better agreements or redeem. Cliffwater's advice was that the Board should insist on a 60-40 or 70-30 ratio. The report was showing that ESG was at 70-30, and 400 Capital and Axonic were at an acceptable level. He said that half of the managers were at an acceptable level, and half were not, in that the Board was paying too much for what they were getting.

Mr. Bielli said that Cliffwater's chart (page 5) was helpful in analyzing investments to the Hedge Fund investments, and it was his thought they should have them on a monthly basis. Mr. Bielli recalled from three months ago, when the Board was considering whether or not to terminate ESG, that had they known about the 70-30 split, and that they were one of the few hedge funds that was producing alpha without relying on beta, they might not have put in the notice to redeem.

Mr. Nesbitt said that Cliffwater could do that.

Mr. Bielli noted that the Board had been articulating this information in the meetings, but the chart spelled it out. He cited the case of Blue Harbor, where the Board was paying too much for what they were getting, their beta was high and the Board could get this beta return elsewhere for a cheaper fee.

Mr. Stagliano asked Mr. Woolworth what should the Board do and when would they be doing it?

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Mr. Woolworth said that staff was putting together a full portfolio allocation, as was discussed at the information session, and they were working with Cliffwater to present in June.

Agenda Item #3 – Hedge Funds

Staff's recommendation was to terminate Caspian Select Credit International.

Mr. Woolworth cited increased market correlation, along with the manager taking a lot of the alpha. He reminded that Staff was conducting a high-yield search, and they could passively or actively have the capital managed at a significantly lower fee.

Mr. Dubow asked Mr. Woolworth what was the suggested time for redemption. He responded that the Board should be redeemed by September 30, 2015, and by that time, the Board and the Subcommittee would complete the high yield search.

Mr. Dubow requested a motion. Mr. Stagliano made the motion to terminate Caspian Select Credit International. Mr. Albert seconded. Mr. Dubow requested a vote. The motion passed unanimously.

Staff's recommendation was to terminate Beach Point Total Return Fund.

Mr. Woolworth cited the high market correlation, as well as the same rationale previously outlined for Caspian.

Mr. Dubow requested a motion. Mr. Stagliano made the motion to redeem from Beach Point Total Return Fund. Mr. Albert seconded. The motion passed.

Mr. Bielli asked Mr. Woolworth when ESG would be terminated. Mr. Woolworth reported that the assets were at about, \$55.0 million, and the Board elected to take \$25.0 million off of the table. They had until June 30, 2015 to decide whether or not to withdraw the redemption request.

Agenda Item #4 – Flash Report for Period ended April 2015

Mr. Nesbitt (page 2) talked about market return. He reported the total fund performance as a bounce-back for the Fund in April, at 1.44% fiscal year-to-date. He reported low, single-digit returns for the current fiscal year. May was a good month.

Mr. Woolworth updated that the benchmarks for 400 Capital, Axionic, and Elizabeth Park were corrected.

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Agenda Item #5 – First Quarter 2015 Directed Commissions Report

Mr. Falkowski reported that the fund directed 38% of equity commissions to local and minority and women-owned brokers. On the Fixed Income side, managers directed 20% to local, minority and women-owned brokers.

Agenda Item #6 – Investment Staff's Report

Mr. Woolworth reported Securities Lending at \$142,527.00 for April.

He reported Quality "D" as continuing in the right direction, \$308,684. Last month it was \$311,000, and for the same time last year it was \$440,000.

He reported total managers in the portfolio as down from 108 to 106. Advent and Mason were removed from the Flash Report. The numbers and percentages were in line.

For the Board calendars, he informed that the July calendars were updated to show the 23rd meeting date and a replacement calendar was included.

The next Board meeting is scheduled for June 25, 2015.

There was no old or new business.

At 10:45 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Mr. Dutchie seconded. The motion passed.

At 10:45 a.m., Mr. Dubow called into session the full Board of Pensions and Retirement and requested a motion to confirm all actions taken at both the Deferred Compensation and the Investment Committee Meetings. Mr. Albert made the motion. Mr. Dutchie seconded. The motion passed.

At 10:45 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

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

Rob Dubow, Finance Director
Board Chair