

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
October 26th, 2017**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 9:57 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16th Floor.

Present:

Rob Dubow, Finance Director
Ron Stagliano, Vice-Chair, Trustee
Pedro Rodriguez, Director of Human Resources
Francois Dutchie, Chief Deputy City Solicitor
Alan Butkovitz, Esquire, City Controller
William Rubin, Alternate, First Deputy City Controller
Carol G. Stukes-Baylor, Trustee
Veronica M. Pankey, Trustee
Brian Coughlin, Trustee
Matt Stitt, City Council Designee

Francis X. Bielli, Esquire, Executive Director
Christopher DiFusco, Esquire, Chief Investment Officer
Bernard J. Buckley Jr., Deputy Chief Investment Officer
Shamika Taliaferro, Deputy Director of Pensions
Marsha Greene-Jones, Deputy Director of Human Resources
James Cousounis, Chief Compliance Officer
Dominique A. Cherry, Senior Investment Officer
Tyrone Jordan, Senior Investment Officer
Eryn-Ashlei Bailey, Investment Officer
Kristyn Bair, Senior Investment Analyst

Also Attending:

Jackie Dunn, Chief of Staff, Office of the Director of Finance
Adam Coleman, Esquire, Assistant City Solicitor
Ellen Berkowitz Esquire, Senior Attorney
Robert O'Donnell, O'Donnell Associates
Lavonia Jenkins, Administrative Technician
Teresa Devine, Administrative Officer
Kweku Obed, Marquette
David Smith, Marquette
Jesus Jimenez, Marquette
Matthew Coyne, Torrey Cove
Emanuel Mahand, Nationwide
Bina Kumar, Nationwide
Jeb Belford, Clarion Partners
Jon Gelb, Clarion Partners
Gwynne Murphy, Clarion Partners
William Greene, Loop Capital
Pam McCue, Finance Investment News

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Agenda Item #1 – Approval of the Minutes of September 28th, 2017

Mr. Dubow requested approval of the Minutes for September 28, 2017. Mr. Rodriguez made the motion to approve the minutes. Ms. Stukes-Baylor seconded. Mr. Stagliano abstained. The motion passed.

The Board met for an Executive Session at 10:03 a.m. to discuss confidential legal and litigation matters with Board's attorneys. The full Board reconvened at 10:20 a.m.

Agenda Item #2 – Raspberry Street II Investment Recommendation

Mr. DiFusco recapped the recommendation from Staff and TorreyCove for an additional \$75M allocation to Franklin Park. Mr. DiFusco explained that Staff negotiated and Franklin Park agreed to a 50-bps management fee for the \$75M allocation to Raspberry Street Fund II.

Mr. Dubow requested a motion to accept the recommendation from Staff and TorreyCove for a \$75M allocation to Raspberry Street Fund II. Ms. Stukes-Baylor made the motion to approve the recommendation from Staff and TorreyCove. Mr. Coughlin seconded the motion. The motion passed unanimously.

Agenda Item #3 – Clarion Lion Properties Fund Investment Recommendation

Ms. Murphy, Mr. Gelb and Mr. Belford presented the strategy of the Clarion Lion Properties Fund (“the fund”). Ms. Murphy stated that Clarion Partners (“the firm”) has invested in Real Estate for 35 years. She noted that the firm has experienced strong performance historically. Ms. Murphy also explained that diversity is important to the firm. The firm engages candidates from the Toigo Foundation. The firm’s investment professional base is 41.4% diverse. The firm’s partner base is 33.3% diverse. Firm wide, diverse candidates make up 56.5% of the employee base.

Mr. Belford stated that the fund represents 25% of the firm’s assets under management, has no queue, and has outperformed the ODCE. Mr. Dubow asked about the historical performance of the fund. Mr. Belford explained that there was a tough lesson learned from the 2008 downturn with using large amounts of leverage. Mr. Gelb added that, notwithstanding the use of leverage, the historical outperformance of the benchmark is attributable to the investment strategy of the fund.

Mr. Bielli inquired about the factors that led to the fund’s outperformance of its benchmark. Mr. Belford explained that growth drives strategy when researching prospective investments. The firm identifies key themes, which would indicate asset appreciation, before deciding to invest in a property. As an example, Mr. Belford discussed the millennial market, and the trend of millennials gravitating toward cities which offer various amenities to consumers. When an area is anticipated to attract millennials, the firm anticipates significant growth there.

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Mr. Rodriguez asked if the firm has investments in South Florida, the Gulf of Mexico, or Texas? Mr. Belford answered that Florida was a strong market historically, but due to recent natural disasters, investments in South Florida are more scrutinized and the fund has not acquired much in that location.

Mr. Dubow asked if the firm ever invests locally in Philadelphia. Mr. Belford affirmed that Philadelphia is an ideal location to invest. However, the firm was outbid on projects in the Philadelphia area.

Mr. Gelb explained that the fund has an overweight to growth oriented properties. This exposure provides access to net operating income growth on an annual basis. Mr. Dubow asked about anticipated growth of the fund. Mr. Gelb approximated future growth to range between 10% - 12%.

Mr. Rubin stated that diversity is important to the Board of Trustees and thanked the firm for highlighting their efforts to enhance diversity. Mr. Dubow asked whether the CPBPR portfolio could expect similar returns from using an index fund. Mr. Obed stated that the OCDE index fund cannot be replicated on a passive basis. Therefore, the recommendation submitted to the Board is to use an active manager.

Mr. Bielli asked how the Rhumblin Index Fund mirrors its benchmark. Mr. Obed explained that the Rhumblin Index Fund provides passive exposure to REITs. Mr. Dubow asked how the additional allocation to the fund would affect the portfolio. Mr. Obed answered that the allocation would expose the portfolio to less volatility while providing additional income.

Mr. Stitt questioned if the fund's investment strategy targeted high quality or undervalued properties. Mr. Obed clarified that with core open-ended managers, there is a percentage of return that is left off the table because of lesser risk assumed with the investment.

Mr. Bielli asked how the fees for the firm compare with the industry. Mr. DiFusco reviewed Staff's recalculation of fees for short-listed managers. Although the firm's fees were slightly higher than other respondents, they were average for the industry.

Ms. Stukes-Baylor asked how fees will change, if at all, if an additional allocation above the initial allocation is made to the firm. Mr. DiFusco answered that fees will decrease as allocations increase.

Mr. Dubow asked if there were any additional questions. There were none.

Ms. Pankey made a motion to accept the recommendation from Staff and Marquette as proposed. Ms. Stukes-Baylor seconded the motion. The motion passed unanimously.

Agenda Item #4 – Private Prisons Divestment Proposal

Mr. DiFusco presented the reports. Mr. DiFusco stated Staff was approached by Councilwoman Reynolds Brown's office about private prisons divestment legislation that the Councilwoman's office was considering. The Councilwoman requested that Board consider taking such action by

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resolution. Law prepared the proposed resolution, modeled in part upon the Sandy Hook principles divestment resolution. The exposure to private prisons in the CPBPR portfolio was approximately \$1.15M and held in index funds. Mr. DiFusco referenced Exhibit A of the Board book, which listed 3 “covered companies” initially affected by the divestment. Mr. Dubow asked how the divestment would work in an index fund. Mr. DiFusco explained that Rhumblin would screen the stocks and exclude them from the CPBPR portfolio.

Mr. Butkovitz expressed concern with what he saw as a conflicting message between the push to divest out of private prisons while the Administration had an existing contract with a private prison. Mr. Coughlin noted his similar concern that City apparently was paying out more on the prison contract than the Board had invested with the covered companies. Mr. Stagliano stated his concern that Council should take action on this policy matter through legislation.

Mr. Dubow responded that the Administration had advised him that City was unwinding from the contract. Mr. Ramos and Ms. Stukes-Baylor indicated that the Board should decide on the merits of the proposal despite the Administration contract. Mr. Dubow added that the Board should decide on the proposal as opposed to reacting to legislation.

Mr. Dubow requested a motion. Mr. Butkovitz made a motion to amend the resolution to include a recital that the City must take any prisoners out of the private prison. Mr. Coughlin seconded the motion. The motion failed 2-5, with Mr. Butkovitz and Mr. Coughlin voting in favor.

Mr. Dubow requested a motion for the approval of the initial proposal. Mr. Rodriguez made a motion to adopt the resolution as proposed. Mr. Butkovitz seconded the motion. The motion passed unanimously.

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

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Agenda Item #5 – Flash Report for the Period ending October 2017

Mr. DiFusco & Mr. Obed presented the reports.

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

Agenda Item #6 – Investment Staff's Report

Mr. DiFusco presented the reports. Mr. Dubow asked for any questions. There were none.

The upcoming Board meetings are December 7, 2017 and January 25, 2018.

Ms. Stukes-Baylor asked how Staff identifies managers who are looking to invest in Philadelphia. Mr. DiFusco answered whenever Staff receives or hears of an opportunity to engage an investment manager interested in investing in Philadelphia and the manager meets all qualifications of the CPBPR portfolio after due diligence, Staff will invite said manager to present to the Board of Trustees.

Ms. Stukes-Baylor asked what has City Council been doing to encourage investment in Philadelphia. Mr. Stitt stated that he would inquire about that for The Board.

Mr. Dubow asked if there was any new or old business. Mr. Dubow asked if there was any other business. There was none.

At 11:35 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Rodriquez made the motion. Mr. Dutchie seconded. The motion passed.

At 11:35 a.m., Mr. Dubow reconvened The City of Philadelphia Board of Pensions and Retirement Meeting to affirm the actions taken at the Deferred Compensation Plan Committee Meeting and the Investment Committee Meeting. Mr. Dutchie made the motion. Ms. Pankey seconded. The motion passed.

At 11:35 a.m., Mr. Dubow requested a motion to adjourn the City of Philadelphia Board of Pensions and Retirement Meeting. Mr. Rodriquez made the motion. Ms. Stukes-Baylor seconded. The motion passed.

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

Rob Dubow
Finance Director
Chair, Board of Pensions and Retirement