

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
FEBRUARY 27, 2014**

There being a quorum, Rob Dubow, Finance Director and Board Chair, called the Investment Committee Meeting to order at 9:39 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> 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  
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor  
Brian Albert, Alternate, Deputy Human Resources Director  
Celia O'Leary, Alternate, Deputy Director of Human Resources  
Carol G. Stukes-Baylor, Employee Trustee  
Ronald Stagliano, Employee Trustee  
Andrew P. Thomas, Employee Trustee  
Veronica M. Pankey, Employee Trustee  
Folasade Olanipekun-Lewis, City Council Designee

Francis X. Bielli, Esquire, Executive Director  
Mark J. Murphy, Deputy Executive Director  
Sumit Handa, Esquire, Chief Investment Officer  
Brad Woolworth, Deputy Chief Investment Officer  
Christopher DiFusco, Esquire, Director of Investments  
Dominique A. Cherry, Investment Officer  
Daniel Falkowski, Investment Officer

Also Attending:

Ellen Berkowitz, Esquire, Deputy City Solicitor  
Jo Rosenberger Altman, Esquire, Divisional Deputy City Solicitor  
Patricia Fitzgerald, Human Resources Program Specialist  
Robert O'Donnell, O'Donnell Associates  
Richard Sensenbrenner, Finance Department  
Charles Jones, Executive Director, Sinking Fund Commission  
Teresa Devine, Pensions  
Shamika Taliaferro, Pensions  
Daina Stanford, Administrative Assistant  
Donna Darby, Clerk-Stenographer II  
Carmen Heyward, Clerk-Stenographer II  
Stephen Nesbitt, Cliffwater  
Ken Kent, Cheiron  
Anu Patel, Cheiron  
Bob Murray, Cheiron

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Jeffrey Jacob, Archview Investment Group, LP  
Peter Carey, Archview Investment Group, LP  
Robert R. Hamilton, Kildonan Castle Partners  
Srinivas Dhulipala, Kildonan Castle Partners  
Pam McCue, Financial Investment News  
Sean Walsh, Philadelphia Daily News  
Bob Warner, Philadelphia Inquirer  
Will Greene, Loop Capital  
Keith Graham, Advent Capital

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**Agenda Item #1 – Approval of Minutes- January 23, 2014**

**Mr. Dubow opened the meeting and requested a motion to approve the January 23, 2014 Minutes. Mr. Albert made the motion. Mr. Stagliano seconded. Mrs. Stukes-Baylor abstained. The motion passed.**

**Agenda Item #2 – Cheiron –Annual Actuarial Valuation Presentation**

Mr. Kent and Ms. Patel provided Cheiron’s actuarial valuation results as of July 1, 2013.

Mr. Kent reminded the Trustees that the results of Cheiron’s valuation had to be submitted to the state by the end of March of 2014 according to Act 205. He outlined their presentation as including options that they considered with the Board in 2013 for valuation, in terms of assumptions, covering a historical review, valuation results, stress tests and alternative assumptions for additional changes for next year.

Mr. Kent reported that the market value return for FY 2013 was 10.94%, and the actuarial value return was 5.08%. It would have been lower if the market performance had not been good. He reported that the actuary-to-market value for 2013 was 113%, and for 2014 it was 102%. Administrative expenses were lowered. Cheiron decided to make a change, without conferring with the Board, to lower the expense assumption from \$8.9 million to \$8.6 million. Last year’s expenses were \$8.3.

The funded (page 3) ratio on a market value-to-liability basis increased from 42.4% to 44.5%, responding to the favorable trends in the market. The Minimum Municipal Obligation (MMO) as a function of projected payroll is expected to decrease from 2014 to 2015. It was not a lag, but a function of payroll.

The Financial Experience report was showing that the gap was closing between the actuary and market value by \$200 million. In 2013, it was \$553 million. In 2014, it is \$355 million. The PAF (Pension Adjustment Fund) increased from \$988,000 to \$1,097,000. Asset return for 2012 was flat. For 2013, it was 10.17%, for the three-year, 4.89%, for the five-year and 7.47% for the ten-year average. The Fund’s assumption rate was 7.95%.

Mr. Kent said that Cheiron would report on an Experience Analysis in March with the Board as the law required this once every four years to address needed changes.

Ms. Patel spent time looking at participation over the last ten years with membership.

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Mr. Handa asked Mr. Kent how the City's PAF compared to other plans. Mr. Kent said that he would look into it.

Following a query by Mr. Butkovitz, the Board considered different scenarios related to the infusion of the sales tax and how it would look from 2014 to 2037.

Mr. Kent examined the Fund's requirements in light of GASB 67. Last year, the discount rate was dropped from 8.10% to 7.95%.

**Mr. Dubow requested a motion. Mr. Stagliano made a motion to lower the assumed rate of return to 7.85%. Mr. Butkovitz seconded. The motion passed.**

**Mr. Dubow requested a motion regarding the Pension Adjustment Fund (PAF). Mr. Stagliano made a motion to include the calculation of the Pension Adjustment Fund. Mr. Butkovitz seconded. The motion passed.**

**Agenda Item #3 – Performance Monitoring Procedures**

Staff informed the Trustees that Cliffwater's recommendation memo regarding Performance Monitoring Procedures had not yet been approved by the Subcommittee.

**Agenda Item #4- Investment Policy Statement**

Staff informed the Trustees that the Investment Policy Statement had not yet been approved by the Subcommittee.

**Agenda Item #5A and 5B – Hedge Funds - Manager Presentation and Board Action**

Mr. Handa said that Archview Offshore Fund, Ltd., and Kildonan Castle Partners Global Credit Opportunity Fund complimented everything done with other hedge fund managers. Archview invested in large and liquid credits. The Fund was lacking a small market on the liquid side. He said that Staff liked Archview's intense, fundamental focus, concentrated position approach and long-term investment origin. He provided a brief background on the presenters' experience.

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Mr. Jeffrey Jacob, Founding Principal, Co-Chief Investment Officer and Mr. Peter Carey, Principal, Head of Business Development, representatives for the Archview Offshore Fund, Ltd., talked about the fund history, product and process followed by Board Q & A.

Staff and Cliffwater requested approval for a \$30 million investment in Archview Offshore Fund Ltd.

**Mr. Dubow requested a motion. Mr. Stagliano made a motion to invest \$30 million in Archview Offshore Fund, Ltd. Mr. Albert seconded. The motion passed.**

**At 11:44 p.m., Ms. Weiss recessed the Board for five minutes. The break began at 11:44 a.m., and ended at 11:55 a.m. Mr. Dubow left the conference room and Ms. Weiss finished the meeting starting with Agenda Item #5B.**

Mr. Handa said that Kildonan was another credit manager that complimented everything Archview did. Interesting nuance about them was that they are a much more macro-oriented credit fund. Cliffwater liked the extensive monitoring skills. They had the ability to go both long and short successfully and navigate the credit market.

Mr. Robert R. Hamilton, President, and Mr. Srinivas Dhulipala talked about Kildonan Castle Partners Global Credit Opportunity Fund history, product and process followed by Board Q & A.

Staff and Cliffwater requested approval for a \$30 million investment in Kildonan Castle Partners Global Credit Opportunity Fund.

Mr. Nesbitt presented Cliffwaters' Operations Due Diligence Report (page 2) highlighting their grade assignment as, overall, "B". Five deficiencies were identified that are typical for small firms such as this, and would be cured when the firm expanded. They were identified as: professional liability insurance, independent risk management, pre-trade compliance, use of external valuation firm and an internal accounting system. As an example, he noted that they currently use Excel spreadsheets in lieu of a recognized accounting system. Cliffwater preferred to see a more upscale accounting system in place rather than Excel.

Board discussion ensued related to the Board being advised when the deficiencies were cured and related to professional liability insurance. Mr. Handa assured them that Staff received Cliffwater's report, and that the insurance issues had been cured for this manager and for all managers.

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**Ms. Weiss requested a motion. Mr. Stagliano made a motion to hire Kildonan Castle Partners for \$30 million. Mr. Albert seconded. Ms. Weiss requested a Board vote. Ms. Pankey was opposed. The motion passed.**

**Agenda Item #6 – Global Transition Services (GTS)**

Mr. DiFusco said that GTS was going through corporate restructuring. Part of the company was breaking off to a company named Veritas Brokerage Consulting, the part that the Board would be using.

In looking at the contract and speaking with the Law Department, Staff was comfortable with the recommendation to issue an RFP for a transition manager and consulting service but continuing to utilize GTS' services as needed in the interim.

Ms. Weiss asked Mr. DiFusco if they were month-to-month. Mr. DiFusco said that was correct.

Mrs. Stukes-Baylor asked Mr. DiFusco if Staff met with the company. He said that they had not yet met with the new company, and that Staff recently became aware of the situation. Mrs. Stukes-Baylor asked him which entity was moving. He said the brokerage team.

**Ms. Weiss requested a motion. Mr. Stagliano made the motion for Staff to issue a RFP. Mr. Albert seconded. Ms. Weiss requested a Board vote. The motion passed.**

**Agenda Item #7 – Memo Regarding Thomas White International (Opportunity Fund)**

Mr. DiFusco relayed information about a memorandum about Thomas White. In addition to Staff's analysis, FIS provided a copy of a memorandum indicating their concern about Thomas White as well. The performance had been challenged over a significant period of time. Staff also noted that while they did bid for the International Equity mandate, they would not be eligible to receive assets because they applied only under the emerging manager category, and their assets under management exceeded the allowable threshold.

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Given all of the above, Staff decided to terminate this relationship. The \$12.7 million will be used to pay benefits.

**Agenda Item #8 – Flash Report for the Period ending January 2014**

Mr. Nesbitt's opening comment was that most of the news about January would be negative, but February would be the reverse, where most losses were recovered. Most asset classes that fell in January recovered the most in February, except Emerging Markets. He provided an overview of market performance.

For the Equity Markets, small stocks performed better than large stocks. The Russell 2000 was better than the S&P 500.

He highlighted the best and worst performers. Emerald was up 4% over the month; The Rhumblin Core Bond Index Fund and the MLP managers did well. The MLP performance added value above the index. Rhumblin for Emerging Markets underperformed. The worst performers were Snyder, O'Shaughnessy, Northern Trust and Aronson.

Overall, January's bad circumstances affected Fund performance, and the total fund underperformed the benchmark.

J.P. Morgan's report was showing that the overall performance for the month was down 1.28% and trailing the benchmark by 68 basis points. All of that was attributable to Private Assets. He noted, for the month, Private Assets returned 0.12% versus the benchmark of 4.23%.

Absolute return was showing outperformance by 71 basis points; Real Assets, MLP's and REITS were adding significant value. In most asset classes, the Fund earned excess return. Private Assets performed well. It is not shown in the numbers due to reporting lag time.

Mr. Nesbitt reported that the Independence Fund did well, with good relative performance. They are reviewing the Independence Fund over the next couple of months. They will be providing an analysis and recommendations.

**Agenda Item #9 – Flash Reports for Opportunity Fund Managers for the Period ending January 2014**

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Ms. Cherry said that all Subcommittee meetings for the Opportunity Fund RFP were scheduled . Domestic Equity would be reviewed by the second week, March 11, 2014, at 10:00 a.m. She reported that for the Opportunity Fund, there was mixed performance. FIS outperformed by 56 basis points. PFM was down by 16 basis points.

Most of FIS' outperformance was by the Domestic Equity managers. CUPPS was the largest contributor, up 7% for the month. The bottom performers for FIS were Apex, Herndon and Thomas White.

PFM's largest detractor was Herndon Large Cap Value for the same reasons. That was the only manager for PFM, in terms of magnitude of underperformance.

Ms. Cherry responded to questions posed by Mrs. Stukes-Baylor and Ms. Pankey about the transition from Herndon, related to both FIS and PFM. Mr. Handa added that the Subcommittee would meet March 11, 2014. Staff believed that once the Subcommittee finalized a decision and brought it to the Board, they would approve new managers.

**Agenda Item #10 – Chief Investment Officer's Report**

Mr. Handa said that January was a volatile month. It was good for Securities Lending, \$335,931 in January. Quality "D" was included under tab B, and performance there was good.

Mr. Stagliano confirmed with Mr. Nesbitt that Cliffwater would come back to the Board with a recommendation about the Independence Fund. Mr. Nesbitt said, yes, Cliffwater would talk about that. He told Ms. Weiss that it would be 60 to 90 days.

Mr. Handa continued in reporting that the Independence Fund did well in the month of February. It was up over 1.28%. Diversity and local managers, tab C, were moving to a higher level because of the changes the Board made.

He highlighted an article included under the CIO's report from the Wall Street Journal, related to the role of activists, as to what was going on in the world today. It played a role in the portfolio and how managers were acting on it. The Board had just funded Blue Harbour Strategic Value Partners Offshore, Ltd., an activist manager.

For future meeting dates, Thursday, May 29, 2014, was moved to Tuesday, June 3, 2014.

**New Business**

Mr. Stagliano said that he would be attending the NCPERS Conference. He asked that the Trustees approve attendance for any member of the Board that wished to go.

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**Ms. Weiss requested a motion. Mr. Stagliano made a motion to approve trustee attendance the NCPERS Conference. Ms. O'Leary seconded. The motion passed.**

**Mr. Stagliano also requested that anyone who wished to attend the MAPS conference be allowed to do so.**

**Ms. Weiss requested a motion. Mr. Stagliano made a motion to approve trustee attendance the MAPS Conference. Ms. O'Leary seconded. The motion passed.**

**At 1:25 p.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Mr. Leonard seconded. The motion passed.**

**At 1:25 p.m., Ms. Weiss 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. Stagliano seconded. The motion passed.**

**At 1:25 p.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement. Mr. Albert made the motion. Mr. Stagliano seconded. The motion passed.**

The Investment Committee of the Board of Pensions and Retirement approved these Minutes on \_\_\_\_\_ .

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Paula Weiss, Esquire  
Alternate Board Chair