

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JUNE 25, 2015**

**MEETING MINUTES**

There being a quorum, Rob Dubow, Finance Director, Board Chair, called the Investment Committee Meeting to order at 9:45 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  
William Rubin, Alternate, First Deputy City Controller  
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor  
Patricia Fitzgerald, Alternate, Hiring Service Manager  
Brian Albert, Alternate, Deputy Human Resources Director & Managing Director Designee  
Ronald Stagliano, Vice Chair, Trustee  
Carol G. Stukes-Baylor, Trustee  
Andrew P. Thomas, Trustee  
Veronica M. Pankey, Trustee  
Folasade A. Olanipekun-Lewis, 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:

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  
Mark Johnson, Cliffwater  
Peter Cunningham, BNY Mellon  
Pam McCue, Finance Investment News

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**Agenda Item #1 – Approval of Minutes - May 27, 2015**

Mr. Dubow opened the meeting and requested approval of the Minutes for May 27, 2015. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

**Agenda Item #2 – Asset Allocation and Hedge Fund Portfolio Recommendation**

Mr. Woolworth invited Mr. Nesbitt to present Cliffwater's report on the asset allocation.

Mr. Nesbitt reminded that every year Cliffwater reviewed the Board's asset allocation, and that the Board asked Cliffwater to do so again now so that the Trustees could achieve greater efficiency with the fees being paid to asset managers.

Cliffwater's recommendation was to reduce the Hedge Fund asset allocation from 12% to 6%.

Mr. Dubow asked Mr. Nesbitt to talk about the other changes that Cliffwater recommended in the allocation to compensate for the change in Hedge Funds. Mr. Nesbitt answered that they will move around within equities and fixed income, including a reduction in investment grade bonds, introducing a new allocation to Business Development Companies (BDCs). He described BDCs as publicly traded investments in middle-market loans.

Mr. Nesbitt responded to Board questions about Cliffwater's recommendation for BDCs, what they were and how they functioned.

Mr. Nesbitt offered three ways to the Board to implement the BDC portfolio. Cliffwater's recommendation was not to index it. The Board's focus should be on high institutional quality BDC's. Their recommendation was a diversified portfolio of approximately ten BDC's

**Mr. Dubow requested a motion. Mrs. Stukes-Baylor made a motion to accept Staff's and Cliffwater's recommendation to reduce the Hedge Fund portfolio from 12% to 6% and to change the asset allocation. Mr. Stagliano seconded. The motion passed.**

**Agenda Item #3 – Hedge Funds-Emerging Sovereign Group Recommendation**

Mr. Woolworth said that Staff wanted to make sure that they were following-up with the Board with the recommendation to take \$25.0 million off of the table for ESG. They currently managed \$55.0 million, and \$25.0 million would reduce that amount to \$30.0 million.

He advised that Staff was watching them carefully and advised keeping the redemption notice in place. Compared to the benchmark, they were doing well in January, February and March, but flat in April, when the benchmark went up about 700 basis points.

Mr. DiFusco said that Staff wanted to come back to the table consistent with the discussion in March, because they would have to let the manager know if they would change course.

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**Agenda Item #4 – Flash Report for Period ended May 2015**

Mr. Johnson's recap on market economics started with an announcement about the new manager performance report page that Cliffwater added at Staff's request.

He reported that total Fund performance was up by 28 basis points in May, lagging the policy benchmark by 42 basis points. Fiscal-year-to-date, the fund was up by 2.22%.

Mr. Dubow asked Mr. Johnson if this year the Fund (page 6) was trailing the benchmark, and what was going on there. Mr. Johnson identified the underperformance as coming from some of the equity managers. Some of the new managers that were added last year had difficult months. They tended to have concentrated portfolios, and bigger swings will be seen from them, relative to the benchmark, on a monthly basis. He said that he expected improved performance from the managers going forward. The last six months had been difficult.

Mr. Leonard questioned Mr. Johnson as a general matter, why the report (page 6) was showing the Fund benchmark meeting the one-year total policy benchmark rate but underperforming. His response was showing that the portfolio was created to meet the long-term actuarial rate based on expected return for each asset class over seven to ten years, based on the expectation for the risk and return opportunities for each of the asset classes. During the past year, the combination of returns for each of the portfolio strategies generated a one-year trailing return of 4.24%, which lagged the 7.8% actuarial return. For prior years, the combined average return of the different strategies was higher than the actuarial return.

**Agenda Item #5 – Staff Investment Report**

Mr. Woolworth reported that Securities Lending generated \$205,000.00 for May and was in line with expectations.

He reported the Quality "D" Portfolio continued to be trending in the right direction, down, at \$303,000.00, and Staff included last month's number for one year ago.

He reported total managers in the Diversity Manager (AUM) report, at approximately 26.4%.

He advised that July 23<sup>rd</sup> and August 27<sup>th</sup>, were the dates of the next Board Meetings. The Board members agreed to move September's meeting from the 24<sup>th</sup> to September 17<sup>th</sup>, 2015.

Mr. Woolworth said that Staff would be getting the final Flash Report by September 16, 2015, from J.P. Morgan.

Mr. Dubow asked if there was new business.

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**At 10:50 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.**

**At 10:50 a.m., Mr. Dubow, Finance Director, Board Chair, called into session the full Board of Pension and Retirement and requested a motion to confirm all actions taken at both the Deferred Compensation and the Investment Committee Meetings. Mrs. Stukes-Baylor made the motion. Mr. Stagliano seconded. The motion passed.**

Mrs. Stukes-Baylor requested an update on the Fairmount Trust. The Law Department provided a brief update and agreed to provide Ms. Stukes-Baylor with a copy of the letter being sent to impacted members.

**At 10:51 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement. Mrs. Stukes-Baylor made the motion. Mr. Albert seconded. The motion passed.**

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

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**Rob Dubow, Finance Director  
Board Chair**