

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
SEPTEMBER 30, 2014**

MEETING MINUTES

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 9:40 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
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor
Brian Albert, Alternate, Deputy Human Resources Director
Patricia Fitzgerald, Alternate, Human Resources Program Specialist
Carol G. Stukes-Baylor, Trustee
Ronald Stagliano, Vice Chair, Trustee
Andrew P. Thomas, Trustee
Veronica M. Pankey, Trustee
Folasade Olanipekun-Lewis, City Council Designee

Francis X. Bielli, Esquire, Executive Director
Shamika Taliaferro, Deputy Pension 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
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
Mark Murphy, Board of Pensions
Nancy Wingler, City Treasurer
Daina Stanford, Administrative Assistant
Carmen Heyward, Clerk Stenographer II
Donna Darby, Clerk Stenographer II

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Charles Jones, Executive Director, Sinking Fund Commission
Robert O'Donnell, Esquire, O'Donnell Associates
Mark Johnson, Cliffwater
Will Greene, Loop Capital
Pam McCue, Finance Investment News

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Agenda Item #1 – Approval of the Minutes of August 28, 2014

Mr. Dubow opened the meeting requested approval of the Minutes of August 28, 2014. Mr. Albert made the motion. Mr. Stagliano seconded it. The motion passed.

Mr. Handa stated in the next thirty days, we are going to be receiving \$62 million from the state. Staff is recommending proceeds be used to pay for benefits.

Mr. Stagliano made motion that the money be placed into benefits. Ms. Stukes-Baylor seconded it. The motion passed.

**Agenda Item #2 – Opportunity Fund –Fixed Income Manager Search
Recommendations**

Mr. Handa said in the summer of 2013, the Board voted to transition away from manager of managers programs to direct investments in the Opportunity Fund. He said \$350,000,000 has been transferred as of this morning.

Mr. Handa stated the Opportunity Fund Sub Committee had been reviewing Garcia Hamilton. Garcia Hamilton had been part of the manager of manager program. Mr. Handa indicated that while there had initially been some questions about how the manager's ownership was structured, it was cleared up, and they are a diversity manager. Mr. Handa said Garcia Hamilton is a very good manager. They have done exceptionally well in the investment grade fixed income. Staff and Cliffwater recommend a \$25 million allocation to Garcia and if approved by the Board it would bring the total dollars that we have invested in the Opportunity Fund to \$375 million.

Mr. Dubow inquired about the returns compared to the benchmark.

Mr. Woolworth answered this is a conservative strategy. He said Garcia Hamilton generated 6.3% since inception. They are in the top decile of performance.

Mr. Rubin made a motion for a \$25 million allocation to Garcia Hamilton. Mr. Albert seconded. The motion passed.

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Agenda Item #3A - Hedge Fund – Taconic Opportunity Offshore Fund

Mr. Handa stated Staff and Cliffwater are recommending termination and redemption from Taconic Opportunity Offshore Fund. The Board has a little under \$30 million with the manager today. The reason why Staff and Cliffwater are making the recommendation is that since inception the performance has been subpar. The Board has been invested with them for almost six years and they've been averaging about five points.

Ms. Stukes-Baylor referenced statements by Taconic which indicated that they (Taconic) did not believe the Board was a good fit as an investor.

Ms. Stukes-Baylor made a motion to terminate Taconic Opportunity Offshore Fund. Mr. Thomas seconded it. The motion passed.

Mr. Dubow wanted to know when the Fund would receive the money.

Mr. Handa responded January or March.

Agenda Item #3B – Hedge Fund – Mason Capital

Mr. Handa stated Staff and Cliffwater are making a recommendation to terminate and redeem from Mason Capital. Their performance since we've been investors with them over the last five years has been spotty; they've had one outstanding year and their earnings are at approximately 6% within that period of time. Staff believes the capital can be better used elsewhere.

Mr. Dubow wanted to know if the issue was a structural problem.

Mr. Handa replied we do not believe that.

Mr. Thomas inquired about the amount of money under management with Mason.

Mr. Handa responded \$52.6 million.

Mr. Stagliano made a motion to terminate Mason Capital. Ms. Pankey seconded it. The motion passed.

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Agenda Item #3C – Hedge Fund- Advent Convertible Arbitrage (Cayman) Fund Update

Mr. Handa informed everyone Mr. Johnson would explain what occurred with Advent Convertible Arbitrage.

Mr. Johnson explained Advent Convertible Arbitrage is a small piece of the portfolio, \$13 million or so. Their basic strategy is to buy a convertible bond and short the underlining equity as a way to make a bet on volatility. Cliffwater recently found out some information from Advent Convertible Arbitrage related to violations of SEC rule 105 in 2012 where they were short stock and at the same time purchased shares in the secondary offering of a company which is against rule 105. Advent essentially claimed ignorance.

They have a relatively small convertible arbitrage hedge piece which is what your portfolio is invested in. They believed rule 105 only pertained to mid-market type situations and not a hedge situation which is what they were doing. They noticed the problem in 2013. They did not report it to the SEC which is the best practice by Cliffwater. The SEC found the violation in a routine information request later in 2013 and ultimately it was announced here by the manager this past week.

Mr. Johnson stated that Cliffwater's view is these types of issues do pop up once in a while though we'd rather not see them. We think the manager should have disclosed this to the SEC when it came up. We further think it was naive of them not to have known that this type of violation pertained to their portfolio as well. We were pleased with the fact they've now announced it to all their investors, but they should have done it earlier.

Mr. Johnson said our operations due diligence team is meeting with the manager to further understand what they're doing in terms of improving their risk controls and then we'll report back after that. We don't think there is anything we can specifically do at this point but we'll come back with a further recommendation.

Mr. Dubow asked Mr. Johnson should we be concerned that this is a sign of some larger problems.

Mr. Johnson replied we don't know, unfortunately. We just haven't been able to carry out that full operational diligence since we've heard this news, and we'll carry that out shortly. The performance recently has been muted. We'll come back with further recommendations as to whether we think it's time to redeem or to continue on.

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Mr. Thomas wanted to know how much money we have with this manager.

Mr. Johnson answered \$13 million, 28 basis points in the total portfolio.

Mr. Bielli asked Mr. Leonard if there were any legal issues from his perspective and from the Board agreeing to sit and wait until Cliffwater comes back with something.

Mr. Leonard responded he doesn't like stuff like this and that he does not like their (Advent's) response. He said from his understanding they're not a good performing manager. Mr. Leonard stated he does not have any reason from his point of view to have them as a manager.

Mr. Leonard made a motion to terminate Advent Convertible Arbitrage. Mr. Rubin seconded. All were in favor with the exception of one abstention by Ms. Stukes-Baylor. The motion passed.

Mr. Johnson commented that in order to redeem, a notice will need to be given by November 17, 2014 for December 31, 2014 redemption date. You will get your money back by the end of January.

Ms. Pankey asked Mr. Johnson about similar situations, how Cliffwater monitors for them and what sorts of "penalties" are generally recommended.

Mr. Johnson said Cliffwater does maintain a watch list on managers where we believe their operational or performance issues would cause us to want to take a further look at the manager to see if the issue corrects itself. We have not put them on the watch list as of yet; this just came up.

Ms. Pankey wanted to know if the watch list is the only alternate penalty besides being terminated. She inquired about fees or anything to that effect that we have.

Mr. Handa answered that there are no other penalties.

Ms. Stukes-Baylor wanted to know if Staff's recommendation was to terminate or to wait. She said there was no discussion from Staff or written recommendation, and that is why she abstained on the vote.

Mr. Handa stated Staff concurred with the information that was provided by Cliffwater and further indicated that Staff agreed with the Board's decision.

In terms of a pipeline for new managers, Mr. Handa said we have three real estate managers and three potential private equity firms coming the Board's way. We have

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between two and four hedge funds and we'll be making recommendations literally starting at the next meeting. The pipeline is deep. Staff, Cliffwater and Franklin Park are underwriting several managers. Mr. Handa said he believes that this fiscal year is going to be very busy for the Board and he expects there will be a lot of managers presenting.

Mr. Dubow wanted to know if the timing would work out as money starts to come back.

Mr. Handa said he thinks the replacement dollars will be there if the Board approves managers.

Agenda Item #4 – Flash Report for the Period Ended August 2014

Mr. Johnson reported during August the performance for the portfolio was good. The fund was up 1.85% and beat the total policy benchmark by 47 basis points for the month of August. The fund has performed well against the benchmark.

Mr. Dubow inquired about the month of September.

Mr. Johnson replied September has been difficult overall. Volatility has spiked back up. Equity markets are down by 2% month to date. The bond markets have been all over the place. Higher grade bonds are down too. Mr. Johnson continued with the Asset Class Summary; commodities were the only negative performing sector globally in August.

Commenting on the Plan's asset allocation, there are a number of managers Staff is going to recommend to the private market space coming up for consideration. Cliffwater thinks the overweight to equities and underweight to private equities will diminish.

Agenda Item #5 – Flash Reports for the Opportunity Fund Managers for the Period Ended August 2014

Mr. Handa asked if anyone wanted to talk about what was mentioned earlier.

There were no questions.

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Agenda Item #6 – Chief Investment Officer’s Report

Mr. Handa said the Fund has earned over \$2 million year to date and over \$38 million since inception for Securities Lending.

Mr. Handa stated Quality D is at \$335,000, down from over \$2,000,000 where we started in 2012.

Mr. Dubow wanted to know why the Philadelphia based manager number went down for the diversity manager report.

Mr. Handa explained because of what we are doing with the Opportunity Fund there was one manager that was not selected to continue on with the plan and that is why we are seeing a drop.

Mr. Dubow wanted to know if this was based on performance.

Mr. Handa said it was based on performance.

Mr. Handa stated as of September 30, 2014, the Independence Fund is down approximately 1%.

Mr. Handa informed everyone KKR invited him to attend a Chief Investment Officer’s Symposium in Washington, D.C. He noted that KKR will not be paying for anything.

Mr. Leonard asked to check with the City’s Chief Integrity Officer regarding applicable ethics rules to verify there were no issues with attendance.

Mr. Rubin made a motion to approve Mr. Handa’s attendance at the Chief Investment Officer’s Symposium Conference subject to the Law Department’s verification. Mr. Stagliano seconded it. The motion passed.

Mr. Handa said he and Fran spoke at a conference two weeks ago and a reporter who interviewed both of them invited him to participate in this hedge fund panel at the RFK Compass Conference.

Mr. Rubin made a motion for Mr. Handa to attend the RFK Compass Conference. Mr. Stagliano seconded it. The motion passed.

Mr. Handa noted Staff requested the Deferred Compensation Plan Committee Meeting and the Investment Committed meeting be changed from October 23, 2014 to October 22, 2014. There were no objections.

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

At 10:13 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee meeting. Mr. Rubin made the motion. Mr. Stagliano seconded it. The motion passed.

At 10:14 a.m., Mr. Dubow convened the meeting of the Board of Pensions and Retirement to affirm the actions taken at the Deferred Compensation Plan Committee Meeting and the Investment Committee Meeting. Mr. Albert made the motion. Mr. Rubin seconded it. The motion passed.

At 10:15 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Rubin made the motion. Mr. Albert seconded it. The motion passed.

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

Rob Dubow, Finance Director
Board Chair