

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
June 23rd, 2016**

There being a quorum, Paula Weiss, Alternate Board Chair, called the Investment Committee Meeting to order at 9:24 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Ronald Stagliano, Vice Chair, Trustee  
Alan Butkovitz, Esquire, City Controller  
Pedro Rodriguez, Director of Human Resources  
Sozi Pedro Tulante, Esquire, City Solicitor  
Brian Abernathy, Alternate, First Deputy Managing Director  
Carol G. Stukes-Baylor, Trustee  
Veronica M. Pankey, Trustee  
Brian Coughlin, Trustee  
Matt Stitt, City Council Designee

Francis X. Bielli, Esquire, Executive Director  
Shamika Taliaferro, Deputy Director, Pensions  
Michael Donatucci, Chief Investment Officer  
Bernard J. Buckley Jr., Deputy Chief Investment Officer  
Christopher DiFusco, Esquire, Chief Compliance Officer  
Dominique A. Cherry, Senior Investment Officer  
Tyrone Jordan, Senior Investment Officer  
Aubrey Hassan, Investment Analyst  
Kristyn Bair, Investment Analyst

Also Attending:

Francois Dutchie, Esquire, Alternate, Divisional Deputy City Solicitor  
Brian Albert, Alternate, Deputy Human Resources Director  
William Rubin, Alternate, First Deputy City Controller  
Paula Weiss, Esquire, Alternate, Deputy Director of Finance  
Ellen Berkowitz, Esquire, Senior Attorney  
Brendan O'Rourke, Esquire, Interim Chief Deputy City Solicitor  
Adam Coleman, Esquire, Assistant City Solicitor  
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor  
Michelle Paznokas, Law Department  
Jeffrey Hornstein, Director of Financial & Policy Analysis, Office of the City Controller  
Jackie Dunn, Chief of Staff, Office of the Director of Finance  
Lavonia Jenkins, Administrative Technician  
Erica Marable, Clerk Typist I  
Mark Johnson, Cliffwater  
Kweku Obed, Marquette

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Ken Kent, Cheiron  
Anu Patel, Cheiron  
Will Greene, Loop Capital  
Eric Stevenson, Nationwide  
Hazel Durand, Nationwide  
Robert O' Donnell, O'Donnell Associates  
Arnold West, GIA Partners  
Larry Bernstein, Curran Investment Management  
Antoinette Robbins, Delaware Investments  
Skip Corkran, Delaware Investments  
Claudia Vargas, Philadelphia Inquirer

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**Agenda Item #1 – Approval of the Minutes of June 2nd, 2016**

**Ms. Weiss requested approval of the Minutes for June 2nd, 2016. Ms. Stagliano made the motion. Mr. Abernathy seconded. The motion passed unanimously.**

Ms. Weiss requested the Board proceed with the meeting in a slightly different order than listed on the agenda.

**Agenda Item #10 – CIO's Report**

Mr. Donatucci presented the reports on Securities Lending, Diversity Manager AUM & Board calendars.

Ms. Weiss asked if we expected to see Quality D continue to rise.

Mr. Donatucci said it is expected to go in the opposite direction.

Ms. Weiss reviewed the Board calendars. The scheduled meeting for July is now on August 2<sup>nd</sup>. The August 25<sup>th</sup> meeting will remain as listed, while the September meeting is rescheduled for the 26<sup>th</sup>.

**Agenda Item #3 – 2016 Portfolio Change Timeline**

Mr. Donatucci made the presentation.

Mr. Dubow asked for an explanation of the rationale behind the new RFPs.

Mr. Donatucci answered they were looking into more passive opportunities; the Russell 2000 Index is small-caps, while Russell Mid-Cap will be for mid-cap stocks.

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

**Agenda Item #4 – Energy Exposure: Observations and Recommendations**

Mr. Donatucci made the presentation on staff's recommendation to reduce the allocation to MLPs.

Mr. Donatucci stated Advisory Research Investment has underperformed and taken higher risks as compared to the other two managers: Harvest Fund and Tortoise Capital.

Mr. Donatucci said it's a recommendation of the staff to terminate Advisory Research and reduce the dollar allocation to the other remaining managers to roughly \$40 million each.

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Ms. Pankey asked if a different asset allocation is being pursued compared to what was currently being done.

Mr. Donatucci answered the MLPs are part of the real asset bucket with a policy range of 5% to 16%. Mr. Donatucci stated that recommendations for a new asset allocation will be presented during the August meetings.

Ms. Stukes-Baylor asked if it was drastic to take the allocation that low.

Mr. Donatucci answered the percentage would go from 3.7% in the portfolio down to 1.8%.

**Mr. Dubow requested a motion. Mr. Stagliano made a motion to terminate Advisory Research and accept staff's recommendation for the allocation to Harvest Fund and Tortoise Capital. Mr. Rubin seconded. The motion passed unanimously.**

**Agenda Item #5 – Europe Overweight Reduction**

Mr. Donatucci made the presentation. Mr. Donatucci stated due to the upcoming vote in Britain with the possibility of them exiting the European Union, it could result in a highly significant sell off equities inside the EU.

Mr. Donatucci stated for this reason, staff recognized it was prudent to reduce the Fund's European overweight. Mr. Donatucci stated that even in the absence of the "Brexit" vote, however, neutralizing that sector weight would have been recommended by Staff.

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

**Agenda Item #6 – 400 Capital Credit Opportunities Fund**

Mr. Donatucci made the presentation. Mr. Donatucci said the plan funded 400 Capital three years ago and has achieved an annual return of 2.26%.

Mr. Donatucci said reduced fees were negotiated with the manager but only in exchange for an additional three-year lock-up period.

Mr. Donatucci said taking into consideration the fund's fees, proposed three-year lock-up and potential for high volatility and low performance staff's recommendation is to terminate 400 Capital.

**Mr. Rubin made the motion to terminate 400 Capital. Mr. Stagliano seconded. The motion passed unanimously.**

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**Agenda Item #7 – IPS Portfolio Transition Recommendation**

Mr. Donatucci made the presentation. Mr. Donatucci said it is Staff's recommendation to reallocate funds across US Equities, International equities, and core-fixed income.

Mr. Donatucci stated that it is also Staff's recommendation to suspend the ranges inside the Investment Policy Statement ("IPS") to accommodate the changes in the proposed asset allocation.

Mr. Dubow asked if this would allow room for an increase in equities and decrease in hedge funds.

Mr. Donatucci said that was correct.

Mr. Rubin asked if Marquette was included in the conversation about making the proposed changes.

Mr. Obed answered there has been constant communication with Staff regarding the asset allocation transition.

Mr. Obed said moving from concentrated areas, like Europe, will lower the expected risk within the portfolio, and it is prudent to remove some of the tilts from the portfolio.

Mr. Obed noted whenever a plan is in transition or an extreme event hits the market, it is perfectly prudent to ask for a suspension of the policy ranges.

**Mr. Rubin made the motion to approve the temporary suspension of the IPS policy ranges. Mr. Stagliano seconded. The motion passed unanimously.**

Ms. Pankey asked how long the suspension would last.

Mr. Donatucci answered 90 days.

**Agenda Item #8 – Developed Nation Passive Index and Benchmark**

Mr. Donatucci made the presentation.

Mr. Donatucci said because of existing investment restrictions inside the portfolio, fund managers find it difficult to match the performance of the unrestricted benchmarks.

Mr. Donatucci said it is Staff's recommendation to track the approved list, instead of the unrestricted benchmark.

Ms. Stukes-Baylor asked the reason for the modification.

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Mr. Donatucci answered that with the Russell 1000 index, there are 1000 securities but only about 974 are open for investment by our pension plan, so managers will try to identify other securities within the same sector to substitute

Mr. Obed added this would not empower any of the managers to go into restricted securities; this is to assist in measuring performance on an equal scale.

Mr. Rodriquez asked what happens if the managers violate the investment restriction policies.

Mr. Bielli stated managers are subject to termination if they violate their contract.

Mr. Bielli went on to say that Staff is recommending a change to the benchmark on measuring performance, not what securities the managers can invest.

**Mr. Stagliano made the motion to modify the developed market passive strategy mandates and benchmarks. Mr. Butkovitz seconded. Ms. Stukes-Baylor opposed. Motion passed.**

**Agenda Item #9 – Flash Report for the period ended April 2016**

Mr. Mark Johnson presented the report.

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

**Agenda Item #2 – Cheiron Update – Buyout Proposal**

Mr. Kent and Ms. Patel of Cheiron made the presentation. The report outlined the analysis of converting Plan 67 active and inactive members into Plan 87.

Mr. Kent asked for questions on the report. There were none.

Mr. Butkovitz requested that a subcommittee be established to consider any legal issues.

Ms. Pankey asked if the subcommittee will be separate from the current legislative committee.

Following discussion, it was determined that any issues involving the buyout and legal (or other) concerns would be addressed by a committee of the whole.

**At 10:55 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Ms. Stukes-Baylor made the motion. Mr. Stagliano seconded. The motion passed.**

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**At 10:56 a.m., Mr. Dubow convened the Board of Pensions and Retirement Meeting to affirm the actions taken at the Deferred Compensation Plan Committee Meeting and the Investment Committee Meeting. Mr. Stagliano made the motion. Ms. Stukes-Baylor seconded. The motion passed.**

**At 10:57 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Ms. Stukes-Baylor seconded. The motion passed.**

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

