BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
DECEMBER 20, 2012

MINUTES OF MEETING

There being a quorum, the Investment Committee Meeting was called to order at 9:35 a.m. in the Board's Conference Room, Two Penn Center Plaza, by Paula Weiss, Esquire, Alternate Board Chair.

Present:	Rob Dubow, Board Chair Paula Weiss, Esquire (Alternate) Harvey Rice, Esquire Brian Albert, Alternate James Leonard, Esquire (Alternate) Celia O'Leary, Alternate Ronald Stagliano, Employee Trustee Carol G. Stukes-Baylor, Employee Trustee Andrew Thomas, Employee Trustee Veronica Pankey, Employee Trustee Folasade A. Olanipekun-Lewis, Non-Voting Board Member
Executive Director:	Francis X. Bielli, Esquire
Deputy Executive Director:	Mark J. Murphy
Chief Investment Officer:	Sumit Handa, Esquire
Deputy Chief Investment Officer:	Brad Woolworth
Investment Officer:	John Foulkes, Esquire
Investment Officer:	Dominique A. Cherry
Investment Officer:	Daniel Falkowski
Also Attending:	Donna Darby – Investment Unit Carmen Heyward – Investment Unit Christopher DiFusco – Law Department Katherine Mastrobuoni – Law Department Ellen Berkowitz – Law Department Jake Walthour – Cliffwater Chris Rice-Shepherd – Cliffwater John Reilly Robert O'Donnell – O'Donnell Associates Clayton DeGiacinto – Axonic Arnold West – ING Investment Management

Also Attending:	Mike Banks – Greentree Brokerage Services
	Kyle Myers – StoneRidge Investment Partners
	Steve Sanders – StoneRidge Investment Partners
	Jan Ransom – Daily News

Agenda Item #1 – Approval of Minutes of October 25, 2012 and November 29, 2012

Ms. Weiss requested approval of the Minutes of October 25, 2012. Mr. Albert made the motion and Mr. Stagliano seconded. All were in favor.

Mr. Rice asked that a change be made to his name from Mr. Harvey to Mr. Rice.

Ms. Weiss requested a motion to approve the Minutes of October 25, 2012. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

Ms. Weiss requested a motion to table the Minutes of November 29, 2012. Mr. Stagliano made the motion and Mr. Albert seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

Agenda Item #2-A – Additional Capital Recommendation – ESG Cross Border Equity Offshore Fund, Ltd.

Mr. Handa said the Board made an investment to ESG in January. They are an Emerging Markets Hedge Fund. He said since the Fund invested with ESG the returns at the end of November are 7.8%. He said the reason why Staff and Cliffwater are recommending an increase of $20 million at this time is because last month there was a regime change in China. What happens in China often matters more than the Fiscal Cliff or the issues in Europe. There is a lot of growth and a lot of issues that come from China. Staff and Cliffwater believe ESG best represents a chance for us to participate in that capacity. He said Kevin Kenny, who the Board met in January, has been in constant contact with Staff as well as Cliffwater and has provided excellent research on the situation in Asia. Mr. Kenny bulked up his team in the last three months and has hired Victor Sue, an expert on China, with a particular focus on the macro environment. Mr. Handa said 40% of ESG's long-short book is devoted to Asia with a focus on China. He said Mr. Kenny visits China on a regular as does his employees. Staff and Cliffwater recommend adding $20 million to this strategy.

Mr. Handa indicated that the Fund had received $22.6 million from the City. He proposed the Board use $20 million of the $22.6 million to be allocated to ESG and the remaining $2.6 million to remain in the operating fund to pay for benefits.

Ms. Stukes asked Mr. Handa how much money ESG currently managed for the Fund. Mr. Handa replied $31 million and that it will be a little over a 1% position for the entire fund as we're at approximately $4.2 billion in total AUM today. Ms. Stukes wanted to know whether the City's proposed additional $20 million investment as a percentage of ESG's total assets would exceed the Fund's policy limits for the Manager. Mr. Handa said no and that they're running approximately $2 billion in aggregate assets.

Ms. Weiss requested a motion of approval. Mr. Albert made a motion to allocate $20 million to ESG and the remaining $2.6 million to remain in the operating account to pay for benefits. Ms. O'Leary seconded. There was no discussion. All were in favor with the exception of two abstentions by Ms. Stukes and Ms. Pankey There were no oppositions. The motion passed.

Agenda Item #2-B – Manager Termination Recommendation – Regiment Capital, Ltd.

Mr. Handa said that for the year through last month the High Yield Market was up 14.45 % and the levered loan market was up over 9%. Investment grade bonds were up over 10% and the CLO market is also up. He said the credit hedge fund manager, Regiment Capital, is supposed to participate in these in markets and outperform them. However, Regiment has been holding excess cash over the last year and a half or so with the expectation that they would employ capital at some point in the cycle, however this has not occurred. The returns have been a disappointment and the result has been consistent underperformance. In terms of Cliffwater's notes they'll highlight the fact that there has been management change at the top. He said Staff and Cliffwater believe it is appropriate at this time to redeem our investment from regiment.

Ms. Weiss asked Mr. Handa if we redeem, if we approve that, when does the redemption letter have to be sent to the manager and when do we get our money? Mr. Handa said we have plenty of time to redeem as the end period is March 31, 2013, but we believe it is appropriate to act today considering everything that is happening. We will get half the proceeds sometime in June or July of 2013, maybe $10.5 million or so. We will receive the balance June or July of 2014.

Mr. Handa said in terms of what we would do with the proceeds, Staff plans to bring something to the Board as early as February for what the potential uses of the proceeds should be.

Ms. Weiss requested a motion of approval. Mr. Albert made a motion to redeem from Regiment Capital Advisors. Mr. Stagliano seconded. All were in favor. There were no oppositions or abstentions. The motion passed.

Ms. Stukes asked to have a discussion. She said do we have a plan to implement the new asset allocation. Ms. Stukes said we approved an asset allocation, but she doesn't know exactly how the Fund will implement the allocation.

Mr. Handa replied the Board approved the asset allocation and implementation at the October 25 Board meeting. He said everything that we did in November in terms of redeeming from the two or three managers and what is being acted on right now is in line with the asset allocation and implementation. Our expectations are that within the next 4-6 months the entire asset allocation will be fully executed.

Ms. Stukes said if we're redeeming from these managers do we have other managers to put the money towards or if we're firing managers do we have other managers where the money could go to instead of saying we're going to talk about placing the money someplace later. She said we just got the money from the City and we gave it to ESG. Ms. Stukes said last month when we were looking at the Flash Report we had a manager that was doing excellent and the question was then, are we going to give them additional funds and that she hasn't seen anything addressed this month of us even planning to give them any funds which she thought would be in line with the asset allocation. Ms. Stukes said she's looking for the process.

Mr. Handa stated the process is as we discussed when we recommended the managers. Presuming we're talking about Brandywine, we have a 4.8% position in Brandywine as highlighted at the last Board meeting. He said he thinks the returns have been excellent. There are two issues with them which are being viewed right now. He said one in particular is whether or not the firm can sustain the level of returns going forward, and second, are the end markets that they participate in, and have generated return from, becoming overvalued. If the Board were to allocate dollars to Brandywine today, would we be investing at the top of the market, thus increasing chance of a negative correction.

Mr. Handa indicated that he believes by February Staff will have answers specifically on Brandywine. He said we are trying to do this in a very methodical manner. We currently believe that, for example with ESG, the reason why we think it's timely is because of what has happened in China. He said they have a new premier coming in; its growth expectations have changed, particularly in light of the global environment, so we just think it's appropriate to increase at this time with ESG. He said it doesn't mean we're not going to recommend anything to Brandywine or others.

Agenda Item #3-A – Axonic Credit Opportunities Overseas Fund, Ltd.

Mr.Handa stated that last year he and Ms. McNavish had noticed that the Fund did not really have any mortgage exposure and thought it was a good opportunity to investigate. Ms. McNavish had met with Axonic, last August and had found them to be a potential candidate for investment. Mr. Handa met with the head of the firm last December. He met with about fifteen or sixteen different mortgage managers over the last year. He said that's generally the process of how we come up with investment ideas.

Mr. Handa said he believes Axonic offers a tremendous opportunity in the mortgage market. The mortgage market is a ten trillion dollar market and primarily consist of two pieces, agency paper and non agency paper. Axonic trades and invest in both segments and the firm has produced returns that have been outstanding. The firm recently received capital from large institutional investors and has grown steadily since inception. Staff is recommending a $30 million investment.

Mr. Leonard inquired about the agency and non agency paper and he wanted to know if Mr. Handa knew the percentage their investment portfolio is with agency versus non agency. Mr. Handa said he didn't know the number and advised he ask Mr. DeGiacinto.

Mr. Dubow wanted to know the market risk for the Fund. What would have to happen in the market for us to lose on this investment?

Mr. Hand said like anything it's question of judgment. You're making a judgment call on Mr. DeGiacinto and his ability in terms of background. It's important that we understand his background. He said his background is sufficient to handle those risks and concerns. Will the housing market correct 50% from here, 80% from here, potentially there's always that risk. He said Axonic can navigate through those waters because of the way they hedge their book, they offer that hedging ability. That's something that none of our other managers are able to do with just long only dollars or when buying real estate properties.

Mr. Stagliano wanted to know how liquid is the investment?

Mr. Handa said it's a Hedge Fund structure so there is a one year lockup. What we have done with the help of the Law Department, is to have provisions in the contract for annual distributions from the Manager. He said let's hypothetically say that they're up 10% and we agree to the investment, we make $30 million investment, they make us $3 million, we can call that $3 million every year so that interest is always available. There are no issues of lockup or redemption. Additionally, after sixty days if we're not satisfied with the performance after the one year period we can always redeem our dollars as well.

Ms. Stukes said wanted to know when we redeem do we still have to wait a certain period of time before we receive capital back.

Mr. Handa said correct. The majority of our real estate portfolio is locked up in ten year vehicles so we can't get out. At least in this one you can get out after a year.

Mr. Rice said he had two concerns. He said he doesn't think the consumer's purchasing power is the same, people are poorer and the banks do not appear to have loosened credit in order to purchase a home. The down payment portion remains high. His second question was on the explanation for the real estate portfolio not doing that well. He wanted to know if we were potentially getting into this strategy late.

Mr. Handa said credit standards have certainly gotten tighter but the quality of buyer as a result is also higher because you have to have a substantial amount of dollars to put down. We're talking about, no income loans that were happening in 2004, 2005; things have changed. He said the banks have to have other standards, however, the system is flush with capital as well and there is a lot of lending going on. He's surprised at how loose some of the terms are and shocked at some of the terms that are being quoted out there.

Mr. Handa said he thinks there are several ways to make money. He said one of the reasons why we're recommending Axonic is because they're able to trade on both sides of the curve, meaning the yield curve. They can participate on the long side and on the short side. They can hedge bets and he thinks that's one of the advantages of having an investment like this versus locked-up dollars in traditional real estate funds.

<u>Agenda Item #3A – Axonic Credit Opportunities Overseas Fund, Ltd.</u>

Mr. DeGiacinto said he is the founder and Chief Investment Officer of Axonic Capital. He spent a number of years at Goldman Sachs & Company in various roles of leadership and risk taking positions. In 2008, he left Goldman Sachs to start his own firm as he felt there was a tremendous opportunity in the market due to the financial crisis and that there was a dearth of human talent available as a start-up to properly value under-priced securities.

Axonic is focused primarily on structured credit, meaning investments are made in bonds that were created anywhere from 2003 until today that trade at significantly distressed prices. The firm has developed proprietary models focused on home prices and focused on different geographic locals and focused on the relevant positions of a capital structure to be able to value what's being sold. Return is generated by both the interest component of the asset and from the principal component of the asset. As an example, if the firm purchases distressed assets at 60 cents on the dollar and the homeowner were to prepay or refinance, the refinance is at par and Axonic would be the beneficiary of the difference between the discount paid and the price ultimately received.

The market Axonic trades securities in is inefficient with multiple participants, some that are highly sophisticated, such as Axonic, while others are less sophisticated. It's a market that trades about a $1.5 billion to $2 billion a day and the firm is very active in these markets trading the relevant securities.

Mr. DeGiancinto covered various aspects of Axonic's strategy including return expectations, risk mitigation, market inefficiencies, hedging, underwriting, complex structures and walked the Board through various examples and specific instances faced during the financial crisis.

Ms. Stukes inquired about the Mr. DeGiancinto's mention of a buy to rent residential strategy.

Mr. DeGiacinto said in June the firm raised a very small private equity fund where they are buying homes in South Florida, in the Naples area, in the West Palm County, where they are renting them to folks. It's generally people that have gone through a foreclosure process. He said we're not kicking anybody out of their homes, in fact quite the contrary, we're going to them and saying, listen you're in a home, we understand that you've quit making your mortgage payment but can you pay some amount in rent. Most people, most of the houses that we buy I'd say 90%; we're actually keeping the person in the home.

Ms. Stukes asked Mr. DeGiacinto if he currently has any public fund capital and if Philadelphia's subscription would be his first public pension money.

Mr. DeGiacinto said they have private pension dollars and they have endowment money, Philadelphia would be the first public pension.

Ms. Lewis said she's concerned about the change in the market's efficiency within the strategy, as that's where Axonic is able to generate returns. She didn't feel like she received a clear answer from Mr. DeGiacinto on this point. She said we have to be cognizant of when to get into the strategy and when to get out out because it would seem that we're right in the middle of a turnaround in the market.

Ms. Stukes indicated that she didn't think Mr. DeGiacinto answered all her questions and wanted to know if we could reduce the investment to $20 milllion.

Mr. Handa said any size that you're comfortable with. We recommend $30 million.

Mr. Walthour said you're looking at $30 million which is less than 1% of the overall pension plan. He said he can understand given the Fund's history and the concerns, but when we think about the challenges of the pension fund we do think that with a portion of the portfolio it makes sense to do higher yielding investments, otherwise, it's going to be very challenging to move the funding ratio in the direction that we'd like to move it and he thinks that by allocating less than 1%, you're not taking a substantial amount of risk in the context of the entire portfolio.

Ms. Stukes said we are his first public fund and she doesn't know how many endowments because there's is no list of who his companies are in his book nor did he discuss them so we don't know what his asset allocations are to the other funds that he's in. Ms. Stukes said she doesn't know if we're giving more than what other people are giving or if we are at the same.

Mr. Stagliano said you're not hearing from a marketer and that his presentation may not be as smooth as we would like it to be because he's not a marketer.

Ms Stukes said you're hearing from the man that makes the decisions. She said his presentation needs to be clear and she needs to hear some clarity in some of his answers. Ms. Stukes said she thinks $ 30 million is still much. She said he's the owner and when you're talking to the owner, the owner should know, it should be clear. She stated she was not satisfied.

Mr. Dubow requested a motion of approval. Mr. Albert made a motion to invest $30 million dollars in Axonic Credit Opportunities Overseas Fund, Ltd. ("Fund"). Mr. Stagliano seconded. Mr. Dubow asked for all in favor. Six were in favor (Mr. Leonard, Mr. Thomas, Mr. Stagliano, Mr. Rice, Mr. Albert, and Ms. O'Leary). Two opposed (Ms. Pankey and Ms. Stukes). There were no abstentions. The motion passed.

Agenda Item #3-B – Real Estate – JP Morgan Chase Strategic Property Fund – Recommendation to Redeem

Mr. Handa said in 2007 and 2008 we made investments in what are considered core real estate funds, basically office buildings in large metropolises like New York City, Washington, Los Angeles and Seattle. He said at the time we purchased, these markets were, unfortunately, with hindsight obviously, totally overvalued. He said as of Monday the fund broke even on the J.P. Morgan investment. Mr. Handa stated that Staff and Cliffwater believe that the markets were again back to those same expensive valuations, and are recommending that we exit. He said that's one of the good things about both of these funds, that we can exit with 80 plus million dollars in proceeds that we will be receiving from these two funds. We're recommending that since we broke even, we're recommending the Board exit both managers.

Mr. Dubow requested a motion. Mr. Stagliano made a motion to redeem from J.P. Morgan. Mr. Albert seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

Agenda Item # 3-C – Real Estate – INVESCO Core Real Estate –U.S.A., LP – Recommendation to Redeem

Mr. Stagliano made a motion to redeem from INVESCO. Ms. O'Leary seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

Agenda Item 3-D – Real Estate Review and 2nd Quarter 2012 Real Estate Portfolio Report

Mr. Rice-Shepherd said overall, Cliffwater and most of the investment community as a whole is pretty bullish on real estate, that's a good thing after many years of there being no strength in the real estate market and the strength is pretty broad based. We've seen a pretty strong appreciation across all the major asset classes in real estate, apartments, industrial, office and retail. That's been the case for over a year and more importantly the reason why we think this is fundamental growth, that put it on the radar, it is growth that has come equally from appreciation in values.

Mr. Rice-Shepherd talked a little bit about cap rates falling in the core market. That's had a lot to do with that appreciation, but also income, so in the major markets of the United States there is true growth. Rental rates are increasing, vacancy is decreasing. Strength is really on a national basis, and there's a pretty significant bifurcation between what we identify as primary markets and secondary markets.

The primary markets for real estate investors are those coastal gateway cities, New York, Boston, Washington, Los Angeles and San Francisco, and in those cities valuations are in many cases above the peaks of 2007. And in the tertiary markets,smaller metropolitan areas, there is still a bit of weakness, that's really for two reasons, when the recession officially ended the job growth and the income growth to date has really focused on those primary locations. That's where we're seeing the lack of supply but also a demand driven rise based on the growth in the economy.

Mr. Bielli asked Mr. Rice-Shepherd where Philadelphia fits in. Mr. Rice-Shepherd said Philadelphia would be considered tertiary market. He said it's not really about population. It's a combination of demographics and various entities.

Mr. Rice-Shepherd said we think that housing has bottomed, that increase has a lot to do with the composition of what's trading. It's up by 3.6% that doesn't necessarily mean that everyone's home value is up by 3.6%, really what that means is the supply of foreclosures and short sales in the market has started to add a little bit. You're getting a lot of market rate trades, there's been a shift into more high priced homes as the backlog of foreclosures clears. He said in some of the primary cities that growth is true value appreciation and that he is speaking from a personal experience as to San Francisco, Los Angeles, New York. You're actually having residential homebuyers bidding above asking again so those values are appreciated.

Ms. Folasade-Lewis asked Mr. Shepherd if there is going to be any effect to this market in January if there's no action by folks in Washington, especially with the taxes going up, the expiration of the Social Security tax holiday, went up to 6.2%, folks' wallets basically shrinking a little bit.

Mr. Rice-Shepherd said I'm going to say the answer's yes. He said this is his opinion; you have two competing forces. Fiscal Cliff happens, incomes drop across the country. That means one's ability to afford a new home, there's a lot of value that gets wiped out, yes, that will be important. He said on the flip side what you would likely see is additional Fed action so you would expect for interest rates to continue to stay low perhaps go a little lower to pop up affordability. He said he was not sure about the balance.

Mr. Rice-Shepherd said the pension fund had an investment in each vintage year from 2008 going forward. We don't have a real indication of the more recent performance simply because the funds 2008, 2009 forward are pretty early in their investment period. They're currently valued at rough cost but that's typical for these closed end vehicles especially in the value and opportunistic space where not only is the money put in over a three to four year period but you start to reap the benefits of those investments after the investment period is closed due to the duration necessary to stabilize the assets.

Ms. Weiss inquired about vintage year 2006 where we still have some unfunded capital that hasn't been called and she also wanted to review Beacon Capital Strategic Partners V, L.P. and Tishman Speyer European Real Estate Venture VI not doing particularly well with the money they have. Ms. Weiss wanted to know if we anticipate they will be calling the additional money.

Mr. Rice-Shepherd said he believes both of those funds are out of their investment period and due to some of the troubles they ran into, a trough in the market, those funds are likely to keep those funds as reserves, so no new investment.

Ms. Weiss asked Mr. Rice-Shepherd if we can say the same for Colony in vintage year 2007.

Mr. Rice-Shepherd said it is the same for Colony. Mr. Rice-Shepherd said overall we've seen the private funds of those vintage years outperform the NPI, that's typical regardless of whether or not your funds were high performing funds or low performing funds, that's because at the height of the downturn the safe money went into core, that's part of the reason why core assets are highly valued today.

It was safety and yield in a low interest rate market so you've seen underperformance there. He said what we're probably less happy about is the underperformance particularly of J.P. Morgan and INVESCO compared to NAREIT equity index. The stock market fell back just about 50% from peak to the trough, the height of the downturn. REITS recovered four or five large parts but the open end core funds did not recover quite as well.

Mr. Bielli said if we had just invested in the index during the same period of time our return would have been plus 7.31% but it turned out to be negative 3.87%.

Mr. Rice-Shepherd said overall, that's weighted though, so your portfolio is comprised of both core investments and more risky value and opportunistic investments. He said in some ways it's an unfair comparison, the better comparison, which was included in the memos that we discussed earlier, are what were the returns of your core portfolio versus the NPI. That being said your point is fair. Why shouldn't we just invest in the index over time? What you would expect is the alpha to be generated from the riskier funds.

Mr. Bielli said that's not his point, the major issue is what we're investing in, because of the timing, all things being equal we could have had the same timing and had a plus 7.31% return.

Mr. Rice-Shepherd said it's both, that's correct. Mr. Walthour said for J.P. Morgan he thinks that since inception in 2007, the net IRR was .97% versus the index of 3.78%. Mr. Rice-Shepherd said he thinks INVESCO was around .2% net IRR. That's how those assets compared to comparable assets in a core index. Mr. Walthour said there is a lot of execution that they lost.

Mr. Rice-Shepherd said that's part of the reason why we recommended the redemption, the execution of those managers in that strategy is unacceptable.

Mr. Rice-Shepherd said their underperformance relative to the index and the REITS, some of the best performers in the portfolio are CIM and Mesa West. These were characterized as value add investments, they were the safer side of that capital preservation. Beacon, there are probably some execution issues; it hasn't done so well as across private real estate in general. The opportunistic investments have not performed well at all, again, this timing in execution, Colony and Arsenal. Colony, 2007 vintage fund, Arsenal, 2006. NCREIF property index versus J.P. Morgan and INVESCO, the trends are similar but what we really focus here on is the gap between the dotted line and the red and blue (page 12 of the real estate review presentation) which represent J.P. Morgan and INVESCO respectively, that's the underperformance, even from the trough of downturn of 2010 forward, that gap was not reduced and so what that hints at is chronic underperformance. Touching on the reallocation, the reclassification of the portfolio, real assets portfolio for Philadelphia is to include real estate. These redemptions will allow that target for real estate to fall from currently about 4% to over 2% which gets the fund in the right direction of the allocation.

Mr. Rice said that he thought the review that Mr. Rice-Shepherd put together was comprehensive and very understandable and he wanted to thank him for that. Mr. Rice said Mr. Rice-Shepherd's presentation was right on and that it has been a while since he got a clear understanding of the real estate portfolio. He thanked Mr. Rice-Shepherd.

<u>Agenda Item 3-E – Real Estate – 3rd Quarter 2012 Portfolio Update</u>

Mr. Foulkes said Colony Investors VIII has been a risky investment, it had negative a 25% since inception return. Mr. Foulkes met with Colony's relationship person, Rommel Marseille, and wanted to comment on this because the firm had been in the Wall Street Journal in an article on December 7, 2012. The West Village Annie Leibovitz portfolio is now up for sale. Mr. Foulkes wanted to know what that means to the Fund. Mr. Marseille's feeling is that without putting numbers on it, this would be helpful to Colony's exit strategy.

<u>Agenda Item #4 – Flash Report for the Period Ended October 2012</u>

Mr. Handa said that on a calendar year basis the Fund has generated an 11.45% return. He said this year there were a lot of changes that happened including a new custodian bank, bringing on a new consulting partner, Cliffwater, and also the new asset allocation. He thinks these numbers are in line with the market and the Board should be satisfied with the results. He believes the numbers can be improved and thinks they're pretty solid.

The S&P 500, from December 1, 2012 to December 19, 2012 was up 1.7%, international markets were on fire in the month of December, so far they range from MSCI EAFE of 2.9% to the Emerging Markets of 4.6% so you're going to have strong performance in the equity markets and then once again the high yield sector which people have very little expectations of, that's up close to 1.2% for the month. It could be a very good calendar year for the fund.

Mr. Handa said the volatility's also declined for the fund over the same period of time. He said, even though we're participating fully on the upside, we have not participated as much on the downside because of the way we structured this fund and a whole host of reasons.

Almost everything with the exception of REITS was up. Across the board in equity markets, once again primarily driven by liquidity. China's a difficult place to get true transparency on. The government controls which sectors the financial institutions will lend to, you never know the true story. There was positive news coming out of China and the market did rally. Within fixed income markets we're continuing to see strong performance with the exception of mortgage-backed security sector. All of the fixed income asset classes were costly. Hedge Funds appear to be a disappointment this year, primarily because credits deliver double digit returns; equities have delivered double digit returns. Within the Alternative space the returns have been much more muted, despite that they're still quite positive and what we expect from the portfolio is that it won't do as well when the indices are rallying but it will act as our volatility dampener when the markets are down.

The best performing managers were equity managers. The worse performing managers for the most part were the Hedge Funds and those that were more conservatively positioned., Kynikos, the Independence Fund, Bridgewater, these are managers that we don't necessarily think will make a lot of money in rising markets because they're there for capital preservation. However, we are disappointed and continue to be disappointed in Mason, that's a manager we would expect to have good performance in a rising equity market. Year to date, Causeway, the Emerging Markets Bond, exposure to the ETF, Ceredex, Emerald and Rhumbline's index on the 1000 growth were the best contributors in the portfolio from a performance perspective. Artio's been terminated, Regiment's been terminated. Mr. Walthour questioned Emerald's numbers and whether they should still be on the watch list. He said Emerald continues to outperform the benchmark and they're a volatile manager, their size reflects their volatility. I'm not clear why they should remain on the watch list.

Mr. Dubow asked Mr. Handa if he agrees that they should come off.

Mr. Handa disagreed because of their volatility. He said last year they underperformed significantly. They're a high beta manager so when the markets rally they'll do very well, when the markets go down they'll significantly underperform so he doesn't see why we'd take them off the watch list. He said the assumption that you're making is the markets going to rally so they'll do very well in a rising market, but what happens if the markets correct.

Mr. Walthour said the outperformance was thirty-five basis points for the month. Outperformance was achieved in five out of the eight categories. All eight categories were positive for the month for November with Hedge Funds generating the lowest return. Private equity, which is on a lag basis, generating the best return and domestic equities beating the international non U.S. equities by ten points and fixed income is delivered at six months of positive attribution relative to the index.In fact it's a really good act of management within the fixed income sector.

Large Cap Value, you're paying a price for underperformance pretty much across the board with the exception of the five year number. Two hundred basis points of underperformance since inception is pretty significant or 1.88%, so if you look at AJO you're getting continued underperformance, calendar year, one year, fiscal year trailing three months. O'Shaughnessy hasn't been around very long but they seem to be digging themselves into a little bit of a hole. U. S. equities particularly the large cap segment is the most difficult asset class to pick successful active managers in. Geneva for the month was 118 basis points below the benchmark but if you look out over one year it is now 4 ½% below the benchmark. Ceredex has been the exception; they've held their own within the mid cap value space outperforming across all time periods. And for the most part within small cap growth. Emerald's done its job. Granted, they do have volatile performance but short term and longer periods of time they've added value to the portfolio.

Within fixed income, Brandywine continues to shoot the lights out. Convertibles, which is a fairly large portion of the fixed income allocation and close to $100 million continues to underperform its index. High Yield for the most part did well for the month. ML High Yields generated ten basis points for the month. Within a Emerging Markets Debt there are two exposures, got the J.P. Morgan bond, ETF which is 71, $72 million and there is Stone Harbor which has about $92 million. The ETF which is basically passive exposure,is significantly outperforming Stone Harbor. Stone Harbor's performance is starting to dig themselves into a hole being two hundred basis points behind over one year.

The Opportunity Funds, PFM is flat and FIS is down eleven basis points. As you can see FIS is struggling across the board in all these various time periods. Within Hedge Funds, we lose one basis point relative to the index for the month. In the month of November, Advent outperformed its index and year to date is doing a very good job relative to its benchmark. Beachpoint slightly underperformed in the month of November. Caspian slightly underperformed in the month of November. KKR was flat and slightly underperformed in the month of November. Regiment underperformed in the month of November. Mason significantly underperformed in the month of November as did Taconic. The bright spots were for the most part ESG doing well relative to its index and Karsch making a comeback, doing well relative to its index. Kynikos was down 1.32% relative to their index which was down 1.71%. They're more of a contrarian manager with a short bias so given the positive trend in the equity markets we would expect that they would be negatively correlated to the equity market performance. The Independence Fund is down 1.13 relative to the event driven index which is up .58. Mr. Walthour believes that had something to do with the last statement of performance. He found some issues with J.P. Morgan's tracking of the investments and corrected it in a relatively short order but since inception which is what they're looking at, because you have such a short period of time, the Independence Fund is close to three hundred basis points above its benchmark. It is doing what it's suppose to be doing with far lower standard deviation than the S&P 500.

<u>Agenda Item Number 5 – Flash Report the Opportunity Fund Managers for the Period ended October 2012</u>

Ms. Cherry noted regarding the set of guidelines for the Opportunity Fund and having the additional asset classes added, staff should actually be ready to meet with the subcommittee sometime next month with an actual proposal of the new guidelines.

There was a request from the Board to update the PFM Flash Report. Ms. Cherry said she has spoken to PFM. There is someone new that has taken over the responsibility and they will have the revised flash report next month.

Ms. Cherry reported the split performance in the Opportunity Fund Managers. PFM was the middle(?) of the target, FIS underperformed by eleven basis points. FIS had underperformance across the board, six of their managers underperformed for the month, and there were three significant underperformers. Edgar Lomax is one that underperformed by 145 basis points for the month and this manager was discussed at length during the Quarterly meeting in terms of their underperformance. The concern is that FIS is comfortable with this manager, they've said at the end of 2011 the manager outperformed by 11%. The manager is performing as expected in the portfolio meaning working in conjunction with the other managers in the portfolio. They are talking about the construction of the portfolio overall. Staff understands the point on the construction of the portfolio, they just wanted to note that while the manager outperformed by 11% at the end of last year, year to date, the manager's down almost 8.5%, giving that back. Since inception the manager is still up by 1.5%.

Ms. Weiss said I understand the point about portfolio construction and they want money in this space. Have they looked to see if there are other managers in this space?

Ms. Cherry said that's exactly what Staff's concern is because they've mentioned it's large cap insurance(?), a difficult space. However, it's Staff's opinion that there is potentially a manager that could possibly add more value than Edgar Lomax at this point. Ms. Cherry said discussions are that they are comfortable with their manager at this time.

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Ms. Cherry continued and stated Cambridge, similar story, devalue manager, not too much concern with Cambridge although they did underperform; sector allocation was the main reason for underperformance because they're a bottom up manager, sector residual of their stock selection. PFM, two managers, Nichols, they are new to the portfolio, down 128 basis points.

<u>Agenda Item #6 – Emerging Markets Index Fund Recommendation</u>

Mr. Handa said last month the Board decided to exit Eaton Vance as well as Trilogy. We received the proceeds last week. There are several options on how to allocate the dollars as we're looking for an asset manager. One is Northern Trust. He said the second way is to invest the $190 million is to do it directly, meaning you can go out and buy ETFs and you can see the cost related to that. The third way is to use Rhumbline. He said considering the cost of doing it as well as execution, Staff is recommending that we use Rhumbline because it's efficient. He said also keep in mind the passive manager RFP is outstanding and he believes the subcommittee is meeting on January 16 to review candidates. Mr. Handa said he's hopeful that there will be a decision made on the 16th. He said Staff can bring it to the Board for approval as early as the January Board meeting but in the interim, we do need to have a place to invest $190 million, otherwise, we'll be sitting idle in cash and that's not something that he believes that is what the Board wants. Staff is recommending that we use Rhumbline because of the price. He believes that they've done a fairly good job for us in other areas.

Ms. Pankey said you're going to allocate it next month in January or you're going to bring it to the Board.

Mr. Handa said what I'm suggesting is that the passive manager RFP subcommittee is meeting on January 16 and my hope is that they'll come to some sort of conclusion on finding other potential passive managers for us and when we have a situation like this we will have a suite of potential parties that we can choose, Northern Trust, Rhumbline, somebody else rather than having only one or two out there. He said this is the most efficient for us rather than always allocating it to just one manager from an RFP, however, in the interim because we're in this stage right now, what do you do in this holding period. The RFP also is going out for the Emerging Markets active manager search and should be out next week or so.

Mr. Rice made a motion to approve to invest the proceeds from Eaton Vance Management and Trilogy Global Advisors in the Rhumbline Emerging Markets Index Fund. Mr. Albert seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

Agenda Item #7 – Chief Investment Officer's Report

Mr. Handa said Securities Lending, through the end of November the Fund made approximately $2 million. In 2011, with State Street, we only made $1.5 million. We're well ahead of schedule in terms of dollars that we've taken in. He said he thinks it's a testament to the purpose of the

Securities Lending Program and additionally it's also good to keep in mind the contract we signed with J.P. Morgan, and the good terms we negotiated.

Ms. Weiss asked if everybody was o.k. with the meeting dates as they stand, January 24, February 28, March 28. She stated Mr. Handa won't be joining us for January.

Ms. Weiss asked if there was any other business or any new business.

At 12:07 p.m., the Board of Pensions and Retirement had a discussion on some "New Business".

At 12:08 p.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion and Mr. Stagliano seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

At 12:09 p.m., Ms. Weiss requested a motion to reconvene the Board of Pensions and Retirement to affirm the actions taken at the Investment Committee and Deferred Compensation Plan Committee meetings. Mr. Rice made the motion and Mr. Albert seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

At 12:10 p.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Albert made the motion and Mr. Stagliano seconded. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.