

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

**MEETING MINUTES**

There being a quorum, Paula Weiss, Esquire, Alternate Board Chair, called the Investment Committee Meeting to order at 9:59 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 (participated by phone)  
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, 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  
Shamika Taliaferro, Deputy Pension Director  
Sumit Handa, Esquire, Chief Investment Officer  
Brad Woolworth, Deputy Chief Investment Officer  
Christopher DiFusco, Esquire, Director of Investments  
Daniel Falkowski, Investment Officer  
Aubrey Hassan, Investment Analyst  
Kristyn Bair, Investment Analyst

**Also Attending:**

Ellen Berkowitz, Esquire, Deputy City Solicitor  
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor  
Katherine Janoski, Esquire, Assistant City Solicitor  
Mark Murphy, Board of Pensions  
Daina Stanford, Administrative Assistant  
Carmen Heyward, Clerk Stenographer II  
Donna Darby, Clerk Stenographer II  
Mark Johnson, Cliffwater  
Daniel Stern, Cliffwater  
Robert O'Donnell, Esquire, O'Donnell Associates

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

Will Greene, Loop Capital  
Tyler Shantz, Mayor's Internship Program  
Pam McCue, Financial Investment News  
Chris Hepp, Philadelphia Inquirer

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

**Agenda Item #1 – Approval of Minutes of June 3, 2014 and June 26, 2014**

Ms. Weiss opened the meeting and requested approval of the Minutes for of June 26, 2014 and June 3, 2014.

**Ms. Weiss requested a motion to approve the Minutes of June 26, 2014. Mr. Albert made a motion and Mr. Stagliano seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.**

**Ms. Weiss requested a motion to approve the Minutes of June 3, 2014. Ms. Stukes-Baylor made a motion and Mr. Albert seconded it. All were in favor with the exception of one abstention by Mr. Stagliano. There were no oppositions. The motion passed.**

**Agenda Item #2 – Independence Fund – Annual Review**

Before beginning the Annual review of the Independence Fund (“the Fund”), Mr. Handa stated that in June the Pension Fund was recognized by Institutional Investor as the best small plan of the year.

Mr. Stern said the Independence Fund continues to perform very well, is meeting its objectives and is adhering to the goals that were stated by the Board.

Mr. Stern stated the Independence Fund is a tactical vehicle that invests in equities, both on the long and short sides. It does not use leverage and invests in U.S. exchange traded equities. The Fund is overseen by the Board’s Executive Committee; J.P. Morgan provides custody and accounting. Cliffwater has daily transparency into positions, monthly calls, and interviews with the portfolio manager as well as conducting onsite reviews of operational capabilities that are performed by the Fund.

Mr. Stern spoke about the history of the Independence Fund. It was started in March of 2012 with \$43,000,000 and has grown. There were two additions of capital that the Board approved totaling \$190,000,000. There have been \$27.6 million of realized and unrealized gains that were generated by the Fund, and the Independence Fund represents 5.3% of the total assets of the Fund. The performance since inception has been approximately 12%. It is performing very well with low risk.

Mr. Stern stated the portfolio at present includes 27 positions on the long side and 40 positions on the short side. The gross exposure of the Fund remains below 100%.

Mr. Stern stated we have done an attribution of the performance which is a good measure of performance. The performance is coming from security selection. The fund had a beta of .17 which is very low. The fund generated an 8.6 alpha which is very

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

high. The information ratio which is the risk adjusted return is 3.18. For comparison, the HFRX Event Driven Index which is the composite of event driven hedge fund managers has generated an information ratio of 0.5.

Mr. Stern informed everyone a new page was added (Page 7, Independence Fund Performance Attribution) to the review. He said this page was added to give you a sense of where the return is coming from. The return is coming from both the long side and the short side. The portfolio manager has hedges which are designed to mitigate and protect the fund from market related losses.

Mr. Stern said one of the objectives of the fund is to mitigate overall risk and that it has done so very well.

Mr. Bielli thanked the Board for making a good decision. Mr. Bielli thanked Mr. Handa and staff for executing the plan.

Mr. Dubow thanked Mr. Handa and staff for their work.

**Agenda Item #3 – Opportunity Fund – International Equity Manager  
Recommendation**

Mr. DiFusco said during the Investment Committee Meeting in June, staff and the Board covered the opportunity fund search, primarily fixed income, domestic equity and one of the international managers. Mr. DiFusco stated staff is recommending two final managers in the international equity category, Hanoverian Capital and Lombardia Capital.

Mr. DiFusco stated Hanoverian Capital is a woman owned firm and an existing manager in the current opportunity fund. They're managing approximately \$16.5 million. Staff is recommending they be awarded a mandate of \$25 million and Lombardia Capital be awarded a \$35 million mandate. Hanoverian Capital's fees are 48 1/2 basis points, and Lombardia Capital's fees are 40 basis points. The allocations will be \$340 million in total for the Opportunity fund which is an increase from the high of the existing mandate of \$320 million. There is \$55 million in fixed income; \$110 million in international equity and the remainder is in domestic equity.

Mr. DiFusco said Staff's report on the managers consists of three summaries from Cliffwater.

Mr. Dubow inquired about the performance of both managers.

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

Mr. Falkowski said both managers outperformed their benchmarks. He said staff feels comfortable in their process of performance and believes they should do well going forward.

Mr. Dubow said Lombardia Capital did particularly well over one, three and five years.

Mr. Falkowski replied the peer rankings for Lombardi Capital were in the first percentile.

Mr. Dubow inquired about Hanoverian Capital and the concerns.

Mr. Falkowski answered they are an existing manager and are above the benchmark. They have done well. Mr. Falkowski said Hanoverian Capital is a little more of an emerging firm, more so than Lombardia Capital.

**Ms. Stukes-Baylor made a motion to approve the allocations for Hanoverian Capital and Lombardia Capital. Mr. Stagliano seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.**

Mr. DiFusco added at the last meeting the Board inquired about fee savings and the updated figure including reduced fees for the two newest managers. He informed everyone there will be a savings of approximately \$692,000.

Mr. Handa thanked Ms. Stukes, Ms. Weiss and Mr. Stagliano for their work in helping to select the managers.

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

Mr. Johnson reported the Fund came in at a preliminary 15.6% for the fiscal year. It was a good result both on an absolute basis and relative to the benchmark (two-hundred basis points above the benchmark). The performance for the month of June ended up being ahead of the benchmark by twenty-five basis points. The second calendar quarter was ahead of the benchmark by fifty basis points.

Every major asset class had a positive month led by risk bond categories, equities, and particularly small caps and emerging markets equities.

There were positive results across the Board for equity markets with the modest exception of Europe.

Fixed income markets and treasury markets declined throughout the month based on a modest uptick in long term treasury rates. The more risky areas of credit including high yield and emerging markets had a very strong month.

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

Alternative investments markets and MLPs continue with very strong results, up 6% for the month.

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

Ms. Stukes wanted to know if managers such as Palisades, Philadelphia Trust, Profit Investment Management and Mar Vista were being terminated.

Mr. Handa answered yes.

**Agenda Item #6 – Chief Investment Officer's Report**

Mr. Handa said Securities Lending generated a little over \$1.6 million through the end of June.

Mr. Dubow asked Mr. Handa for an update on diversity managers.

Mr. Handa said Causeway Capital was a woman owned fund and the Board has over \$200 million with them. Sarah Ketterer, who runs Causeway Capital, decided to give equity to some of her team and which diluted her ownership. It did not have anything to do with the quality of the firm; she wanted to retain the people. This brought her ownership percentage down, and the firm no longer qualifies as woman owned.

Ms. Stukes-Baylor wanted to know if terminating the (existing opportunity fund) managers will bring the numbers down. She wanted to know if the managers that have been kept and managers that are being hired are already in those numbers.

Mr. Handa explained that on balance the numbers will increase. Under the current opportunity fund platform there was a peak of \$320 million in assets, and the Board will now have \$350 million in assets in this part of the Fund.

Ms. Stukes Baylor asked Mr. Handa when you terminate the managers will the money be placed into cash or into an index?

Mr. Woolworth answered it will transfer over into the (new) managers, like securities to like securities.

Ms. Stukes-Baylor asked Mr. Handa are we concerned about our investments in international markets. She wanted to know the impact.

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
JULY 24, 2014**

Mr. Handa said we don't think any action is warranted, that is why we have not brought it to your attention; if something is needed we will bring it to the Board's attention or call an emergency meeting.

Ms. Stukes-Baylor inquired about Israel.

Mr. Handa answered that the Fund's exposure is diminimus.

Mr. Woolworth added we've never had exposure to Ukraine.

Mr. Dubow asked if there was any other new business.

Mr. Stagliano thanked staff for doing a great job this fiscal year.

Ms. Stukes-Baylor inquired about calculating the PAF.

Mr. Bielli said Ken Kent is in the process of starting it.

**At 10:38 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion and Ms. Stukes-Baylor seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.**

**At 10:39 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. Albert made the motion and Mr. Stagliano seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.**

**At 10:40 a.m., Mr. Dubow requested a motion to adjourn the board of Pensions and Retirement meeting. Mr. Stagliano made the motion and Mr. Albert seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.**

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

\_\_\_\_\_  
Rob Dubow, Finance  
Board Chair