

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
AUGUST 28, 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, 16th Floor.

Present:

Paula Weiss, Esquire, Alternate, Deputy Director of Finance
Alan Butkovitz, Esquire, 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, Employee Trustee
Ronald Stagliano, Employee Trustee
Andrew P. Thomas, Employee Trustee
Veronica M. Pankey, Employee Trustee

Francis X. Bielli, Esquire, Executive 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:

William Rubin, Alternate, First Deputy City Controller
Katherine Janoski, Esquire, Assistant City Solicitor
Mark J. Murphy, Board of Pensions
Daina Stanford, Administrative Assistant
Donna Darby, Clerk Stenographer II
Carmen Heyward, Clerk Stenographer II
Robert O'Donnell, Esquire, O'Donnell Associates
Mark Johnson, Cliffwater
Brad Atkins, Franklin Park
Raymond Jackson, Franklin

Will Greene, Loop Capital

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Agenda Item #1 – Approval of Minutes of July 24, 2014

Ms. Weiss opened the meeting and requested a motion to approve the minutes of July 24, 2014. Mr. Albert made the motion. Mrs. Stukes-Baylor seconded. The motion passed.

Agenda Item #2 – Equity and Fixed Income Manager Updates

Mr. Falkowski reported that (page 3) Geneva Capital Midcap Growth's performance was disappointing. They underperformed by 714 basis points year-to-date net of fees, and the since inception numbers were poor as well.

Ms. Weiss asked Mr. Falkowski how long they had been in the Fund. Mr. Falkowski said coming up on three years this fall.

Mr. Falkowski continued by saying that it had not been the greatest environment for them to outperform. They were more of a defensive manager, but the magnitude of the underperformance was higher than expected. As other contracts were being completed, Staff's thought was to use Geneva's capital as a source to fund the Opportunity Fund managers.

Ms. Weiss asked if Staff was recommending that they terminate Geneva today. The answer was affirmative.

Ms. Weiss requested a motion. Mrs. Stukes-Baylor made a motion to terminate the Geneva Capital Mid-Cap Growth fund. Mr. Rubin seconded.

Ms. Weiss asked Mr. Handa where they could put the money while they were waiting. Mr. Handa reiterated that the new Opportunity Fund managers would be ready and would be that most appropriate place to move the assets.

Ms. Weiss said that there was a motion and a second on the table to terminate Geneva. She requested a Board vote. There were no abstentions or oppositions. All were in favor. The motion passed.

Ms. Weiss requested a review of MacKay Shields. Mr. Falkowski reported that Staff recently met with the manager. He said that they were conservatively managed, with shorter duration exposure, and when interest rates went down, they underperformed. The meeting was underwhelming. Staff did not feel they had a great knowledge of the portfolio. Looking at the performance, since inception, they were behind the benchmark.

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Ms. Weiss asked Mr. Falkowski if they should look at giving the manager more time. Mr. Handa said that Staff and Cliffwater were reviewing all of their managers, and, particularly those handling fixed income. Staff took steps earlier this year to take money away from them to pay for benefits, and they believed that they would have further recommendations for the Board within the next 45-60 days.

Mrs. Stukes-Baylor asked Mr. Handa when the Board hired MacKay Shields. Mr. Handa said they were hired in 2009.

Ms. Pankey asked if there were other managers that had exposure to Canada or Australia. Mr. Falkowski replied that the Board had exposure in a passive investment with Northern Trust.

Mr. Stagliano noted the size of the Board's position with MacKay Shields, and asked whether or not Staff wanted to park the money into an index fund. Mr. Handa responded that Staff and Cliffwater did not believe that there was any action necessary. If something was to be triggered within the next few months, Staff would bring it to the Board's attention.

Agenda Item #3 – Franklin Park LLC Firm Update – 1st Quarter 2014 Private Market Report – Staff Report 2nd Quarter – 2014 Private Market Update

Mr. Handa advised that Staff was reviewing all managers and consultants and reporting to the Board about their performance. Staff asked for a review of Franklin Park's clients, the size of the assets on which they advise, the organization, and the firm's turnover. He said that Staff had no concerns. It was impressive to see Franklin Park's growth. They have done a very good job and have continued to do a good job.

Mrs. Stukes-Baylor talked about Franklin Park's tenth anniversary celebration, expressing that she was impressed with how they had grown internationally and globally. Mrs. Stukes-Baylor, Mr. Woolworth and Ms. Hassan attended. Mr. Atkins said that Franklin Park appreciated the kind words. The City was their first client, and they would always be loyal to the Board.

Mr. Atkins provided an executive summary of program performance (page 4) and net return versus the benchmark. The program started in 1987, earning 9.9% percent. More important was the last ten-year return, which was at 13.3%, beating all benchmarks and the S&P 500 by a big spread.

Mr. Jackson (page 7) provided the portfolio diversification by geographic location, where 85% of the portfolio was in North American-based companies, and 12% was in Western Europe.

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Mr. Jackson also reported on recent commitments in August of \$60 million, including Veritas V, which just closed. Earlier in the year, a \$60 million commitment was approved to Sycamore Partners II, but Staff and the GP could not come to an agreement on terms.

Mr. Woolworth provided a first half update including discussion of the IRR, cash flows and final distributions.

Mr. Leonard asked about the difference in returns between the private equity portfolio and the S&P500 since inception. Mr. Handa said that the premium earned in private equity was a result of the higher compensation expectation received due to the illiquid nature of the asset class.

Agenda Item #4 – Cliffwater LLC Firm Update and 1st Quarter 2014 Real Estate Portfolio Report – Staff Report 1st Quarter – 2014 Real Estate Update

Mr. Handa informed the Board that staff had requested a firm update from Cliffwater. He said that Staff had no issues and was happy with their relationship and partnership with them, and they were doing a very good job.

Mr. Johnson provided an investment summary of the Real Estate Portfolio showing a net program IRR since inception of 0.40%. There were no commitments during the quarter. Mr. Johnson also reviewed specific underperforming partnerships, particularly for the years 2005-2008.

He provided a breakdown (A-1) of the strategy and focus of the portfolio, highlighting the majority of the portfolio being in value-added real estate

Mr. Woolworth provided Staff's 2nd Quarter report for 2014, reporting that CIM Urban REIT had been a very successful investment for the City. It had a challenging vintage year, but it had done well despite these headwinds. Another group purchased the assets of CIM, and the entity is now a publically traded company. CIM will be distributing the unit shares of that REIT to the investors.

Mr. Handa added that while the year 2006 might have generally been a bad crop for real estate managers, CIM was the exception to the rule. He added that Staff and Cliffwater were looking to bring, in the next several months, more recommendations to the Board's attention that would continue on the path of CIM and other real estate investments that were made over the last few years.

Mr. Bielli looked at Staff's report of portfolio returns and asked how it would look minus the more recent good picks, like Lone Star and Mesa West. He wanted the Board to see

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how good the selection could be, as opposed to bad performers. Mr. Johnson said that Cliffwater could do that.

Agenda Item #5 – Flash Report for the Period Ended July 2014

Mr. Johnson reported that for July, after a strong fiscal 2013, in the first months of fiscal year 2014 the markets pulled back due to macroeconomic factors. The total Fund declined by 68 basis points during July.

Every asset declined in every category during the month. During the month, alternative markets were showing muted, negative returns.

The asset allocation (slide 8) in most categories was close in strategies versus the benchmark targeted allocations. The largest difference was with the Private Markets allocation versus the Private Markets benchmark that is more overweight private debt. .

Agenda Item #6 – Flash Reports for the Opportunity Fund Managers for the Period Ended July 2014

Mr. Handa informed the Board that the transition to direct relationships was ongoing and in keeping with the one year time line promised to the Board in 2013, he expected it to be completed in no more than two months.

Agenda Item #7 – 2nd Quarter 2014 Directed Commissions Report

Mr. Handa presented Staff's report for Directed Commissions. Ms. Weiss noted that the percentages looked good.

Agenda Item #8 – Chief Investment Officer's Report

Mr. Handa reported that Securities Lending generated approximately a little over \$1.8 million year-to-date with JP Morgan.

He talked about the recent headline news about JP Morgan data being hacked. His understanding was that most of the victims were European banks and European clients of JP Morgan. To Staff's knowledge, nothing had happened to the Fund's account or exposure with JP Morgan.

The report included the Diversity managers report and breakout.

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The Independence Fund was currently flat for the month.

The Board calendars were changed from September 25, 2014, to September 30, 2014. November 27, 2014, was moved to December 4, 2014. The Board members agreed that the December 4, 2014, meeting would serve as both the November and December meetings.

New Business

Mr. Butkovitz, City Controller, said that he was making a motion that this Board go on record in support of an effort to request disclosure of political spending by managers who did business with, not only this Pension Fund, but with pension funds across the country. It was in support of the rules change being considered by the (SEC) Securities and Exchange Commission that would require public companies to disclose political spending.

Ms. Weiss asked Mr. Butkovitz if it was a full resolution and which organization(s) were supporting it. Mr. Butkovitz said AFSCME.

Ms. Weiss asked Mr. Butkovitz what was the motion. He said that he was making a motion that had to be seconded. The motion was for a resolution that would support a rules change by the (SEC) Securities and Exchange Commission requiring disclosure of political contributions, and an effort to proactively get companies to provide that kind of disclosure. Mr. Stagliano seconded.

Ms. Weiss suggested that since all of the Board members did not have a chance to read the proposal prior to the meeting that it be tabled for the Legislative Subcommittee to review it and come back with a report and a recommendation in 30 days.

Mrs. Stukes-Baylor made a motion that they table it for 30 years. Mr. Butkovitz seconded. Ms. Weiss requested a Board vote. The motion passed.

Ms. Weiss said that they would call the Legislative Subcommittee into session for the following week or the week after. She requested that Mr. Butkovitz send to her full copies, and she would see to it that it was on the agenda for the September 30, 2014 meeting.

Mrs. Stukes-Baylor asked Mr. Butkovitz if AFSCME was the only organization that was supporting it. He said that the State and City Controllers of Oklahoma and New York City were leading the way on it.

Mr. Bielli informed that Mr. DiFusco has been involved with an outside entity working with the Mayor's office. It was an entity that was trying to do a study to assist in an

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increase in Deferred Compensation participation. It had nothing to do with ICMA-RC. It was totally independent.

Mr. Bielli noted that the mayor had recently announced that exempt employees would be receiving a raise and an increase in employee pension contributions. He explained that Mr. D'Attilio would be sending a memo announcing the raise. The memo would include a one-page notice encouraging employees to allocate all or a portion of their raise into Deferred Compensation. He explained that the information would go to all exempt employees. He said that he saw it as a win, but did not want to agree to it before they brought it to the Board.

Mrs. Stukes-Baylor asked Mr. Bielli whether non-reps would receive a raise and whether this information would be sent to non-reps as well. He said that their raise occurred when District Council #47 received a raise. The non-representatives' raise occurred on May 14, 2014.

Mrs. Stukes-Baylor asked why there was a different contact person for ICMA-RC other than the usual reps on the e-mail, Mr. Nyce and Ms. Wilkes. She asked why there was a separate agenda for exempts.

Mr. Butkovitz asked Mr. Bielli if it was being done under the auspices of the City of Philadelphia. Mr. Bielli said, yes. Mr. Butkovitz asked if there was no private vendor, at all. Mr. Bielli said, no.

Mr. Stagliano said that he was in favor of any effort to get City of Philadelphia employees to join Deferred Compensation.

Mrs. Stukes-Baylor posed the question that if the Board and the Subcommittee used time to come up with the communication programs for participation, then, why could they not use what was already there. She said that she did not have a problem with it, but it looked as if they were building something separate for the exempts.

Mr. Bielli explained that this was in addition to what ICMA-RC was doing. He cited Mr. Stagliano's point, in saying that he did not see the harm in increased encouragement of people to participate in Deferred Compensation.

Mr. Thomas suggested that the information be included with ICMA-RC information, as when he received statements every month. Mr. Bielli accepted this suggestion and noted that Personnel had been waiting for one week to send a memo informing exempt employees of the raise, and they wanted to take the opportunity to include encouragement to participate in Deferred Compensation. It was timely.

Ms. Weiss asked the Board if there was an objection to it.

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Mrs. Stukes-Baylor said that there was never an objection on her part, but she did not understand why they could not use what the Board had already been set up to do. It was her thought that they needed to increase Deferred Compensation and have participation. .

Mr. Butkovitz added that he did not think there was any objection. It was his thought that the Board members were asking a legitimate question. It did not sound as if there was opposition.

Ms. Weiss asked if there was other new business for the Board. There was none.

At 11:19 a.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Mr. Stagliano seconded. The motion passed.

At 11:19 a.m., Ms. Weiss 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. Mr. Stagliano seconded. The motion passed.

At 11:19 a.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

Mr. Handa and Ms. Weiss said Happy Labor Day to everyone.

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

Paula Weiss, Esquire
Alternate Board Chair