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

MEETING MINUTES

There being a quorum, Paula Weiss, Esquire, Alternate Board Chair, called the Investment Committee Meeting to order at 9:34 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
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 A. Olanipekun-Lewis, City Council Designee

Francis X. Bielli, Esquire, Executive Director
Shamika Taliaferro, Deputy 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

Ellen Berkowitz, Esquire, Deputy City Solicitor
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
Charles Jones, Executive Director, Sinking Fund Commission
Robert O'Donnell, Esquire, O'Donnell Associates
Stephen Nesbitt, Cliffwater
Mark Johnson, Cliffwater
Brad Atkins, Franklin Park
Raymond Jackson, Franklin Park
Stefan Kaluzny, Sycamore Partners II, Ltd.
Fred Cumming, Elizabeth Park Capital Management, Ltd.

Pam McCue, Finance Investment News
Will Greene, Loop Capital
Jackie Dunn, Finance

Agenda Item #1 – Approval of Minutes of March 27, 2014

Ms. Weiss opened the meeting and requested a motion to approve the March 27, 2014, Minutes. Staff advised that the minutes were not yet available for review. Carol Stukes-Baylor made a motion to table. Andrew Thomas seconded. The motion passed.

Agenda Item #2 – Private Markets-Sycamore Partners, II, L.P.

Mr. Handa stated that Sycamore Partners was focused on investing in turnaround situations in retail and consumer companies. Staff believes the manager offers an attractive sector focused partnership that tends to be agnostic to the current macro-economic environment. The manager has demonstrated very strong performance for their first fund, generating an 83% gross internal rate of return since 2011. Mr. Handa highlighted the past history of the partners at Golden Gate Capital from 2000 to 2011, where Sycamore produced a very successful track record over a decade in several consumer and retail focused companies.

Mr. Handa added that to the best Staff's knowledge, Sycamore did not have direct public pension money in their first fund. However, they did have some public pension money via a discretionary account.

Ms. Olanipekun-Lewis asked if the City's investment in the fund might be Sycamore's first public pension capital directly. He said that the Board's investment, if approved, could be their first.

Staff and Franklin Park's report was provided, with Staff's request to invest $60 million in Sycamore Partners, II, L.P.

Mr. Kaluzny, Co-Founder and Managing Director, talked about the firm's three-year track record and the general background of Sycamore Partners' process, analysis, team and their approach in acquiring underperforming companies. He talked about their core team of 18 professionals, where seven of them had worked at a predecessor firm. He and his co-partner, Peter Morrow, have worked together for 14 years, and other members of the firm had been together for seven or eight years. He talked about the success of the first fund, which closed at $1 billion of capital, with a limited partner base including endowments, foundations, family offices, financial institutions, and, to a limited extent, the public pension community. He discussed Sycamore's investment approach that had generated approximately three-times invested capital by being involved in acquisitions and turnaround strategies with strong EBITDA growth in all of their portfolio companies.

He responded to Board questions about their involvement in company acquisitions and performance of companies in Fund I.

Mr. Dubow asked Mr. Kaluzny if there was a percentage limit in terms of a single portfolio company investment concentration. Mr. Kaluzny said there was a limit, and they worked hard to mitigate and stay within the 20% limit that was provided within their limited partnership agreement. As a practical matter, they preferred to be below 15% in any single position.

Mr. Bielli noted that part of Sycamore's risk assessment involved identifying the assumed liquidation value, related to the analysis for portfolio company Pathlight in the first fund. He wanted to know if Pathlight had run into situations where they had to liquidate significant positions. Mr. Kaluzny stated that not before they were within 30% to 50% profits. Related to transparency, they disclosed in their financial statement, every position that Pathlight held as part of their due diligence process. They wanted significant transparency in all loan positions; so that it was clear to the limited partners.

Ms. Olanipekun-Lewis asked Mr. Handa to talk about how it would enhance the portfolio. He said that the Fund had been underweighted to Private Equity, in terms of assets in Private Equity by a little over 7%. If the Board approved, it would increase the Private Equity exposure. The construction of the portfolio was represented by several themes, except retail, which was why Staff, Franklin Park and Cliffwater thought it was a unique strategy.

Ms. Olanipekun-Lewis noted Mr. Handa's comment in Staff's report about them being very young. So young, that they were not able to be reviewed by the Securities and Exchange Commission. She asked if that was of concern. He said, no, it was young, in terms of the fund, itself, and that it was not a first time fund, but it was Fund II. As Mr. Kaluzny mentioned, he had extensive experience within two of the most preeminent private equity firms within the industry. Also, in terms of reference checks, all of the Board's partners were contacted, and several said that if the Board wanted to partner with anyone in retail, partner with Sycamore. He spoke to three different firms.

Mrs. Stukes-Baylor asked if it was a step toward expanding Private Equity into the Opportunity section to give new companies opportunity. Mr. Woolworth said that was correct.

Mr. Handa said the Board in 2013 expanded the Opportunity Fund in the guidelines. Now that they were more current, and with the Board including Elizabeth Park and Sycamore, it would be another $80 million in allocations. The result of this will be an almost a 40% increase in the Opportunity Fund. In terms of the fees, in less than two years, the fees paid to minority, diversity and emerging managers increased from 9% to, almost 17%, almost a 90% increase. Including Elizabeth Park and Sycamore as alternative managers would enhance that, going forward. It was because the Board wisely moved forward with expanding the Opportunity Fund.

Mr. Dubow requested a motion. Carol Stukes-Baylor made the motion to approve a $60.0 million investment in Sycamore Partners, II, L.P. Ronald Stagliano seconded. The motion passed.

<u>Agenda Item #3 – Hedge Funds – Elizabeth Park Capital Management, Ltd</u>

Mr. Handa said that Staff and Cliffwater were recommending a $20.0 million investment in Elizabeth Park.

Mr. Handa provided a brief background about Elizabeth Park's specialty focus on smaller banks throughout the country. He touched on the U.S. GDP of, approximately $15.0 trillion, with bank assets of $13.0 trillion, against deposits of about, $9.0 trillion. Europe's economy was the same size, with four times the size in bank assets of the U.S. The deposits against the European banks were, about, $20.0 trillion. In talking about the stability of the two systems, this explained why European banks had to deleverage and why Staff was recommending the investment.

Mr. Handa recalled the events that occurred as a consequence of 2008 that resulted in banks' cost increasing, with consolidation of smaller banks. This was Elizabeth Park Capital Management's focus.

He presented Staff's report about performance during the financial crisis of 2008, where Elizabeth Park generated 37%, rare for long/short managers. He talked about Mr. Cummings background and experience and the firm's very consistent return, with an average of approximately 17.1% for the last five years. Assets under management for the firm are approximately $200.0 million. Mr. Handa paused briefly to introduce Aubrey Hassan, as the new addition to investment staff. Ms. Hassan is working as an investment analyst.

Mr. Cummings, President and Portfolio Manager at Elizabeth Park Capital Management, provided an overview of his presentation that would highlight elements of the firm, and their outlook for bank stocks over the next three to five years. He provided a history of his background and work history in covering bank stocks since 1989 and forging his own business in 2006. He talked about the firm profitability during the 2008 crisis, starting with $3.0 million, with half million of his own money. They were up 37% in 2008. As of 2013, they were up five of the six years that they had been in business, compounded at 17% per year. In 2013, three of their portfolio companies were sold at premium, ranging from 35% to 70% of market, and it was their thought that more of that would be seen in the coming Quarters. The Fund manages approximately $190.0 million as of today and should get to $220.0 million by May 1, 2014. Mr. Cummings talked about the firm's targeted market of domestic, publically traded banks. After talking about the history of their process and profitability with banks, he responded to Board questions.

Mr. Dubow asked Mr. Cummings to talk about the internal process. He said that the final decision, in terms of which bank went into the portfolio, was his decision.

Mr. Dubow asked Mr. Cummings to talk about 2011. Mr. Cummings said that they had a very difficult macro-industrial environment due to the European debt crises. In the fall of 2011, they did it well, and hedged their portfolio with ETF's, by shorting the Regional Bank index. They limited their drawdown in August and September. In October of 2011, when the market recovered, he held on to the ETF's too long. They lost money on their short book. For that reason, they no longer used the ETF's as a hedge. They now use only single-name shorts, versus making a macro-call. They are not day traders. Fall of 2011 was a traders market, and as a result, they lost money.

Mr. Dubow requested a motion. Brian Albert made the motion to invest $20.0 million investment in Elizabeth Park Capital Management, Ltd. Carol Stukes-Baylor seconded. The motion passed.

Agenda Item #4 –Performance Monitoring and Watch-List Procedures

Mr. Handa updated the Board about Staff's work to create and incorporate a watch system into the IPS statement.

He presented Cliffwater and Staff's recommendation memo regarding Performance Monitoring and Watch List Procedures. The Subcommittee met, reviewed and codified how managers are to be monitored.

He said that Staff was asking for permission to incorporate a daily monitoring system of all managers, received every morning, as a daily report [P&L]. A substantial change in P&L would trigger conversation with Staff and Cliffwater, with Staff contacting managers, if necessary, to bring them to the Board's attention..

Mr. Woolworth noted that they did not have daily P&L before. It was the big change when negotiating a change from State Street to JP Morgan. State Street did not provide the ability to monitor daily with the P&L. The type of monitoring that Staff was doing prior to bringing on JP Morgan was monthly.

Mrs. Stukes-Baylor asked Mr. Handa if there was no longer a watch list. He said that there was a watch list, but it was changed to on or off the watch list. She asked if there were any managers on the watch list. He said that there were no managers on the watch list.

Mr. Woolworth added that they were starting fresh.

Rob Dubow requested a motion. Ronald Stagliano made the motion to approve Staff's new recommended procedure. Brian Albert seconded. The motion passed.

Agenda Item #5 – Investment Policy Statement

Mr. Handa updated the Board about Staff's work to create and incorporate a watch system into the IPS statement. He requested approval for the New Watch List to be incorporated into the New Investment Policy.

Mr. Dubow requested a motion. Ronald Stagliano made the motion. Brian Albert seconded. The motion passed.

Mr. Handa requested a motion to incorporate the Watch List into the Investment Policy.

Mr. Dubow requested a motion. Ronald Stagliano made the motion. Brian Albert seconded. The motion passed.

Agenda Item #6- Flash Report for Period ended March 2014

Messrs. Johnson and Nesbitt provided the report.

Mr. Johnson said that there were two sets of reports for 1st Quarter 2014, including February's report, as well as the March report.

He reported that the Fund was up 2.45% during 1st Quarter, and a very good result, especially versus the benchmark, overall.

Mr. Johnson and Mr. Nesbitt reviewed each of the asset classes and noted specific managers that had underperformed or outperformed for the month.

Agenda Item #7 – Flash Report for Opportunity Fund Managers for the Period ended March 2014

Ms. Cherry updated on the status of the diversity, local and emerging manager RFP's. There will be presentations and Opportunity Fund subcommittee meetings on May 8th and 15th, 2014. Staff has scheduled either on-site visits or calls with the International Manager candidates. The Domestic and Fixed Income pieces of the portfolio will be completed by the June meeting, and the expectation from Staff was to have the International completed by July.

Ms. Cherry reported mixed performance for the month, from the Opportunity Fund Mr. Cherry continued by noting the underperforming managers for the month.

Mr. Handa added that Staff expected the RFP process and manager selections to be completed by August..

Agenda Item #8 – Chief Investment Officer's Report

Mr. Handa noted that shorting related to volatility provided potential income for Securities Lending for 2014.

He reported about Quality "D" that was over $2.0 million about 18 months ago, but had dropped to under $500,000.

Tab "B" of the CIO report included the Philadelphia [local] and Diversity manager report.

Mrs. Stukes-Baylor asked if the Board looked at hiring managers that are not in the Philadelphia area, how were they included in the report if they were just talking about Philadelphia managers. Mr. Bielli said that internally it was included, but OEO did not include suburbs. He said that it could be kept internally, but it was up to the Board. OEO did not count it.

Mrs. Stukes-Baylor asked when the way OEO counted become the guideline. Mr. Dubow said that they could change it back. She said that they could have a conversation about it.

Mr. Handa continued in saying that he included the article in Tab “D” as it related to the strategy in the Opportunity set.

Mr. Handa requested approval from the Board to attend a consortium on June 11th. It is for diversity and emerging managers. He was invited to speak at the 2:30 p.m., panel to discuss how the Board increased the Opportunity Fund. He said that there was a lot of misinformation about what they had done, so he would like to set the record straight in a public forum.

Mr. Dubow requested a motion to approve Mr. Handa’s request. Ronald Stagliano made the motion for Mr. Handa to attend. Brian Albert seconded. The motion passed.

Mr. Handa said for the calendars, there was no meeting in May.

The May meeting will be held on June 3, 2014. June’s meeting is scheduled for June 26, 2014. July’s meetings will be held on the 24th. August will be held on the 28th.

Mr. Handa distributed information that was not in the Board packets related to the Board taking stands on several issues about Proxy voting. It showed that the Board was asking for the separation of the chairman and CEO roles of Nabors Industries. The report included with the binder was from Nabors. It was showing companies that were listening to the Board and that what they were asking was being done.

At 11:20 a.m., Rob Dubow requested a motion to adjourn the Investment Committee Meeting. Brian Albert made the motion. Ronald Stagliano seconded. The motion passed.

At 11:20 a.m., Rob Dubow called into session the full Board of Pensions. He asked if there was new business.

<u>New Business</u>

Ms. Veronica Pankey requested permission to reopen the travel agenda request for Mrs. Carol Stukes-Baylor. Mrs. Stukes-Baylor asked to attend the Ninth Annual

Economic and Financial Development Conference, "New Approaches to Underfunded Pension Funds", on the Benefits side.

Mr. Dubow requested a motion to approve the amendment to Mrs. Stukes-Baylor's request. Ronald Stagliano made an amendment for travel expenses to include Veronica Pankey for July 8th to the 11th. Andrew Thomas seconded. The motion passed.

At 11:20 a.m., Rob Dubow asked if there was a motion to accept all of the actions taken at the Deferred Compensation and the Investment Committee Meetings. Brian Albert made the motion. Ronald Stagliano seconded. The motion passed.

At 11:20 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement. Ronald Stagliano made the motion. Brian Albert seconded. The motion passed.

Mr. Handa extended wishes for a great May and a Happy Mother's Day.

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

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Rob Dubow, Finance Director
Board Chair