

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
January 24, 2019**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 11:10 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Jacqueline Dunn, Alternate, Chief of Staff, Office of the Director of Finance  
Ronald Stagliano, Vice Chairman, Trustee  
Marcel Pratt, City Solicitor  
Rebecca Rhynhart, City Controller  
Christopher Rupe, Chief of Staff, Office of the Managing Director  
Marsha Greene-Jones, Deputy Director of Human Resources  
Carol G. Stukes-Baylor, Trustee  
Veronica M. Pankey, Trustee  
Brian P. Coughlin, Trustee  
Matt Stitt, City Council Designee

Francis X. Bielli, Esquire, Executive Director  
Bernard J. Buckley Jr., Deputy Chief Investment Officer  
Shamika Taliaferro, Deputy Director of Pensions  
James Cousounis, Chief Compliance Officer  
William Rubin, Audit Manager  
Dominique A. Cherry, Head of Private Markets  
Tyrone Jordan, Senior Investment Officer  
Kristyn Bair, Investment Officer  
Abdel-Aziz Ibrahim, Investment Officer

Also Attending:

Kellan White, First Deputy Controller  
Adam Coleman, Assistant City Solicitor  
Ellen Berkowitz, Esquire, Senior Attorney  
Sharolyn L. Murphy, Esquire, Senior Attorney  
Lavonia Jenkins, Administrative Assistant  
Neshea Bumpus, Clerk Typist I  
Jeffrey Francis, Nationwide  
Bina Kumar, Nationwide  
Brad Nyce, Nationwide  
Samantha Grant, Marquette Associates  
Kweku Obed, Marquette Associates  
Jesus Jimenez, Marquette Associates  
Matthew Coyne, Torrey Cove  
Pam McCue, Financial Investment News  
Nick Hand, City Controller's Office  
Matthew Vegari, City Controller's Office  
Peter Cunningham, BNY Mellon

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**Agenda Item #1 – Approval of the Investment Committee Minutes of December 6, 2018**

**Mr. Dubow requested approval of the Minutes for December 6, 2018. Mr. Stagliano made the motion. Mr. Coughlin seconded. The motion passed.**

**Agenda Item #2 – Private Equity Overview & Outlook-TorreyCove**

Mr. Coyne presented an overview of the Pension Fund's PE Portfolio performance, pacing, cash flows, fee summary, manager exposures and diversification and provided strategic Plan Recommendations. Since inception (1987) through June 30, 2018, CPBPR has committed \$1.6 billion to 99 partnerships; has received \$1.6 billion of distributions or 116% of its \$1.4 billion in invested capital; and has generated a net IRR of 10.1%.

To avoid "lumpiness" in cashflows, TorreyCove recommended a steady pacing and for 2019 a targeted commitment of around \$155 million (within a range of \$125 to 175 million) with expected 3 to 6 Commitments in the \$25 to \$ 75 million size range.

Ms. Rhyhart inquired about the two benchmarks (Cambridge Associates and Long Nickels PME plus premium), noting the State Treasurer has used the PME. Mr. Coyne explained the two benchmarks and responded that the 500 premium was overly aggressive, a legacy result from previous guidelines, very few public pension plans use 500, and typical premium was 300. He recommended using 300 bps premium.

Mr. Dubow asked if the cash flow projections were long term or short term and how did TorreyCove define long term. Mr. Coyne explained that it was long term and defined long term as 10 years.

Ms. Rhyhart asked about the clawback process and if the Plan had made/received any clawbacks. Mr. Coyne explained that Torrey Cove as part of its due diligence reviews every proposed distribution notice with respect to calculations and reports any clawbacks in quarterly PE portfolio reports. He noted that there were no actual clawbacks in the past 3 years since the funds in question had resolved their clawback position. He added that a few were currently in clawback position but that these funds had until final disposition to resolve the clawback issue. Ms. Rhyhart asked if TorreyCove could identify the clawback matters and Mr. Coyne said they would do so.

CPBPR Staff and TorreyCove remain focused on lowering PE fees. The last seven commitments have a management fee of less than 1% and carried interest of about 12%, on a weighted average basis.

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**Agenda Item #3 – Review and Recommendations for The Fund’s Policy Benchmark**

Mr. Obed presented the analysis/rationale and the recommendation for adjusting the policy benchmark to reflect the asset allocation changes adopted by the Board. He noted that Marquette was not recommending any change to the approved asset allocation.

To capture accurately the true asset class exposures of the Fund, Mr. Obed stated that Staff and Marquette recommended creating custom benchmarks. Mr. Obed also noted another reason for the recommendation. If the Fund kept the current benchmarks and made no changes to reflect the asset allocation transition of The Fund, it would result in an increase in measuring performance deviation versus the policy benchmark. He explained the proposed customized benchmarks. Adjusting benchmarks in conjunction with portfolio transitions is a best practice.

**Ms. Rynhart made a motion to accept the benchmark proposal. Mr. Coughlin seconded. The motion carried unanimously. Mr. Stagliano and Ms. Stukes-Baylor did not participate in the vote.**

**Agenda Item #4 – Shareholder Proposal Update and Plans For 2019**

Ms. Maureen O’Brien and Ms. Anh Cao of Segal Marco Advisors provided a summary of the engagement results for 2018 and shareholder engagement plans for 2019. Ms. O’Brien stated it was a very successful year in engagement in 2018. A total of 15 proposals were filed at companies for shareholder meetings on topics such as political spending disclosure, proxy access, board diversity and executive compensation reform.

Of the 15 proposals filed, eight were withdrawn in response to company implementation, six went to a vote and one was omitted. All engagements with respect to Board diversity were successful.

Ms. O’Brien stated the system planned 14 proposals for 2019 shareholder meetings. To date, four of the proposals have already been withdrawn in response to company action on the proposals. The proposals on diversity requested 6 firms adopt a policy to require that every candidate pool for a board nominee include diverse nominees in terms of gender and race.

Mr. Dubow asked why Chevron was chosen as one of the recommended companies to file a proposal on political lobbying disclosure. Ms. O’Brien stated that Chevron was easy to engage, and willing to respond to engagement.

**Agenda Item #5 – Manager Reviews & Updates: Ariel & AJO**

Ms. Cherry stated as of December 31, 2018, the Fund’s account size with Ariel is \$46.5M. There were no major updates at the firm level. Ariel continues to follow its process and guidelines and their strategy will typically underperform in periods where value is not rewarded in the

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marketplace. Staff is not recommending termination or a decrease in assets managed by Ariel at this time. Staff, with Marquette, will continue to monitor Ariel's performance and report back to the Board if they recommend action.

AJO was last reviewed at the Investment Committee Meeting on May 24, 2018. Staff conducted an onsite visit on December 20, 2018. Total assets in the strategy as of December 31, 2018 were \$9.8B. There were no additional updates from the firm or changes to AJO's strategy perspective. However, AJO lost one sub-advisory client due to a fee dispute. AJO continues to outperform (net of fees) since inception.

Staff affirms that the performance should continue to be monitored but there is no recommendation at this time to take further action. The Board requested that AJO staff appear in person at the February 2019 ICM meeting to provide the Board with a performance update and explanation of AJO's diversity brokerage program.

**Agenda Item #6 – Flash Report for The Period Ending December 2018**

Mr. Obed presented the reports. Mr. Obed asked for any questions. There were none.

**Agenda Item #7 – Diversity Brokerage Report**

Mr. Buckley presented the reports.

Mr. Buckley stated the Fund's managers are encouraged to direct 35% of their trades to brokers on an approved list of Local, Minority and Women-Owned firms. In total, the Fund's equity managers directed 39% during the third quarter and for 2018.

**Agenda Item #8 – Investment Staff's Report**

Mr. Buckley presented the reports.

The upcoming Board meetings are February 28, 2019, March 28, 2019 and April 25, 2019.

Mr. Coughlin requested a change of the scheduled February Board meeting to February 21, 2019. The Trustees agreed to the change in date to February 21.

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

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

**At 1:07 p.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Ms. Pankey made the motion. Mr. Coughlin seconded. The motion passed.**

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

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Rob Dubow  
Finance Director  
Chair, Board of Pensions and Retirement

