

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
January 25, 2018**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 10:42 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Jackie Dunn, Alternate, Chief of Staff, Office of the Director of Finance  
Ron Stagliano, Vice-Chair, Trustee  
Pedro Rodriguez, Director of Human Resources  
Francois Dutchie, Chief Deputy City Solicitor  
Rebecca Rhyhart, City Controller  
Carol G. Stukes-Baylor, Trustee  
Veronica M. Pankey, Trustee  
Brian Coughlin, Trustee  
Matt Stitt, City Council Designee

Francis X. Bielli, Esquire, Executive Director  
Christopher DiFusco, Esquire, Chief Investment Officer  
Bernard J. Buckley Jr., Deputy Chief Investment Officer  
Shamika Taliaferro, Deputy Director of Pensions  
Marsha Greene-Jones, Deputy Director of Human Resources  
James Cousounis, Esquire, Chief Compliance Officer  
Tyrone Jordan, Senior Investment Officer  
Eryn-Ashlei Bailey, Senior Investment Officer  
Kristyn Bair, Senior Investment Analyst

Also Attending:

Adam Coleman, Esquire, Assistant City Solicitor  
Ellen Berkowitz, Esquire, Senior Attorney  
Sharolyn L. Murphy, Esquire, Senior Attorney  
Rosamond Howard, Senior Director of Strategy & Policy Analysis  
William Rubin, Audit Manager  
Lavonia Jenkins, Administrative Technician  
Neshea Bumpus, Clerk-Typist I  
Kweku Obed, Marquette  
Emanuel Mahand, Nationwide  
Bina Kumar, Nationwide  
William Greene, Loop Capital  
Pam McCue, Finance Investment News  
Claudia Vargas, Philadelphia Inquirer  
Erwin B. Gant, Senior Vice President Institutional Sales

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**Agenda Item #1 – Approval of the Investment Committee Minutes of December 7, 2017**

**Mr. Dubow requested approval of the Minutes for December 7, 2017. Mr. Rodriguez made the motion. Mr. Stagliano seconded. The motion carried.**

**Agenda Item #2 – Flash report for the period ending December 2017**

Mr. DiFusco provided a brief update of the performance of the Total Fund Composite (“the Fund”). As of December 31, 2017, over a one-month period the Fund returned 1% net of fees, which represents a 20-bps outperformance of the Total Fund Policy Benchmark (“the benchmark”). The fund’s calendar year-to-date return is 15.4% versus the benchmark’s 12.8% calendar year-to-date return. Calendar year-to-date, the fund has outperformed its benchmark by 260-bps. Fiscal year to date, as of December 31, 2017, the fund outperformed its benchmark by 140-bps (7.2% vs 5.8%).

Mr. Dubow asked if Mr. DiFusco had any updated return figures for the Board to review. Mr. DiFusco shared internal estimates and those provided by Marquette as of January 23, 2018. Mr. DiFusco noted the estimates show a return of 3.65% for the month, which represents outperformance by 44-bps net of fees against the benchmark. The fiscal year-to-date return through January 23, 2018 was 11.12%, which represents outperformance by 194-bps net of fees, against the benchmark.

Mr. DiFusco mentioned the top and bottom performers in the fund. When discussing AJO as a bottom performer, Mr. DiFusco reiterated that performance levels of all managers are closely monitored through on-site visits or phone calls and monthly performance reports. Mr. Dubow asked if there were any issues with their strategy. Mr. DiFusco answered that portfolio managers at AJO are aware of the Board’s concern, and that the firm had made recent changes to mitigate future risk.

Mr. Obed reiterated the Fund’s outperformance, net of fees relative to its benchmark, was 15.4% as of December 31, 2017. Mr. Obed also mentioned that the overall market had priced in tax law changes and pro-business policies of the new administration. Mr. Obed highlighted the strong performance of non-US equities, with the emerging markets benchmark returning in excess of 37% as of December 31, 2017.

Mr. Obed reviewed the overall asset and sub-asset allocation of the fund. The fund’s 60% equity exposure is evenly split between US equities and non-US equities. Mr. Obed noted that the US equity market is in a 9-year bull run which is unprecedented. Mr. Obed also said that reversion to the mean is imminent, although anticipating the effects and timing of the reversion is not possible.

Mr. Obed reviewed the interim asset allocation and the long-term asset allocation approved by the Board in 2016. Mr. Obed noted Marquette’s efforts to increase exposure to investment-grade fixed income, and to decrease opportunistic fixed income, based on the risk-reward premiums and suitability of such assets.

Mr. Obed also reviewed the infrastructure and real assets sub asset allocation in the fund. He discussed the decreased volatility and diversification benefits of such assets in the overall fund. Mr. Obed discussed the plan to increase the fund’s exposure to core open-end real estate

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Ms. Howard questioned the 10% tactical overweight to real estate in the portfolio. Mr. Obed discussed the interim asset allocation versus the long-term asset allocation. He approximated a 1 – 2-year lead time for rebalancing the portfolio from the interim to the long-term asset allocation. Mr. Obed discussed Marquette’s cautious approach to considering private real-estate due to the illiquidity of the asset class. Ms. Howard suggested daily liquid real estate investments. Mr. Obed noted that the Pension Fund has Real Estate Investment Trust (“REIT”) exposure through an index fund (Rhumblin FTSE NAREIT).

Ms. Howard questioned the benchmarking used for the last 3 entries on page 14 of the Executive Summary, (Real Assets – Private Real Estate, Real Assets – Private Energy Infrastructure, Private Assets Composite). Mr. Obed explained that because these assets are privately traded and based on independent valuations, benchmarking the assets against their return is industry best-practice.

Mr. Stitt noted the flattening of the Treasury yield curve. Mr. Stitt asked what Mr. Obed would project as an outcome if a market downturn occurred and high wage earners had not adequately saved for their tax bill. Mr. Obed noted that the best mitigation strategy would be to diversify the portfolio with various bond issues. Mr. Obed explained that global fixed-income would be immune to tax changes because they are not controlled by the US tax system.

Ms. Howard inquired about the policy that guides different investments, exposure levels and required levels of liquidity. Mr. Obed referenced the Board’s approved Investment Policy Statement (“IPS”). Ms. Howard mentioned that after reviewing the IPS, she could not identify specific guardrails for exposure to asset classes. Mr. Obed indicated that Marquette and Staff would review the relevant documents.

Ms. Rhyhart asked about the investment criteria for fund allocations, including liquidity requirements and risk level. Mr. Obed answered that there are investment guidelines governed by the Investment Policy Statement.

Mr. Obed discussed the weakening of the U.S. dollar which was approved by U.S. Secretary of the Treasury, Steve Mnuchin. Mr. Obed pointed to the fund’s strategic exposure to both US and non-US equities to balance the potentially negative effects of a weakening US dollar. Mr. Obed acknowledged that the US reaps benefits when its currency is weakened. Mr. Dubow asked could the U.S investments potentially suffer a loss due to the weaker dollar. Mr. Obed explained that big companies on the S&P 500 Index derive returns from businesses outside of the US. Mr. Obed explained that currency impacts are typically a wash over long-time periods. He referenced 2003 as an example when this happened.

**Agenda Item #3 – Investment Staff’s Report**

Mr. DiFusco presented the reports.

The upcoming Board meetings are February 22, 2018 and March 22, 2018. The upcoming Trustee Education Seminar will be held on February 26, 2018 at 10 a.m.

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Mr. DiFusco asked to change the scheduled April Board meeting to April 19, 2018. All Board members agreed to the change.

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. There was none.

**At 11:10 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Dutchie made the motion. Ms. Stukes-Baylor seconded. The motion passed.**

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