

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
February 22, 2018**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 10:50 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  
Ronald Stagliano, Vice Chairman, Trustee  
Pedro Rodriguez, Director of Human Resources  
Brian Abernathy, Alternate First Deputy Managing Director  
Francois Dutchie, Chief Deputy City Solicitor  
Rebecca Rhynhart, 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  
James Cousounis, Chief Compliance Officer  
William Rubin, Audit Manager  
Dominique A. Cherry, Senior Investment Officer  
Tyrone Jordan, Senior Investment Officer  
Eryn-Ashlei Bailey, Investment Officer  
Kristyn Bair, Senior Investment Analyst

Also Attending:

Kellan White, First Deputy Controller  
Rosamond R. Howard, Senior Director of Strategy & Policy Analysis  
Adam Coleman, Esquire, Assistant City Solicitor  
Ellen Berkowitz, Esquire, Senior Attorney  
Sharolyn L. Murphy, Esquire, Senior Attorney  
Lavonia Jenkins, Administrative Technician  
Neshea Bumpus, Clerk Typist I  
Dave Smith, Marquette  
Brad Nyce, Nationwide  
Kenneth Kent, Cheiron  
Anu Patel, Cheiron  
Brett Warren, Cheiron

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
February 22, 2018**

**Agenda Item #1 – Approval of the Investment Committee Minutes of January 25, 2018**

**Mr. Dubow requested approval of the Investment Committee Minutes for January 25, 2018. Ms. Pankey made the motion. Ms. Stukes seconded. The motion carried unanimously.**

**Agenda Item #2 – Cheiron-Annual Actuarial Valuation Presentation for Fiscal Year Ending June 30, 2017**

Mr. Kent, Ms. Patel and Mr. Warren of Cheiron, presented the preliminary annual actuarial valuation for fiscal year ending June 30, 2017. The report provided preliminary actuarial valuation results as of July 1, 2017.

Mr. Kent reported that the asset market value return was 13.08% and the actuarial asset return for the fund was 4.40%, generating a net asset loss of \$152M. Mr. Kent also reported that the actuarial liability was greater than expected, which produced a \$23.9M loss. Mr. Kent reported several improvements: the funded ratio, calculated by dividing the actuarial assets by the actuarial liabilities, increased from 44.8% to 45.5%; the funded ratio of market assets to liabilities increased from 39.5% to 43.4%; and there are projected decreases in MMO and RRP as a percentage of payroll.

Mr. Kent discussed the differences in calculating the Minimum Municipal Obligation (“MMO”) and the Revenue Recognition Policy (“RRP”). Mr. Kent explained that the RRP does not consider the additional sales tax revenue, tiered member contributions, and additional Police member contributions in assets. Mr. Coughlin questioned if these additional funding sources get pulled out of the MMO calculation. Mr. Kent responded that the MMO does not “pull out” these additional revenues in its calculation, and they are dedicated to pay down the unfunded liability quicker than the MMO.

Ms. Rhynhart inquired if sales tax revenues are included or excluded from the calculation of future pension liabilities. Mr. Kent explained that the calculation for the RRP excludes sales tax revenues, and assumes that those revenues are not received. Therefore, the RRP is a more conservative calculation, which seeks to bring the pension fund to a 100% funded ratio quicker than the MMO calculation. Mr. Dubow explained that for the MMO calculation, the sales tax revenue received is accounted for. The assumptions for the MMO calculation factor in this consistent inflow of sales tax revenue going forward. Ms. Rhynhart inquired if the sales tax revenue is not accounted for in the RRP calculation, where are the funds in fact held. Mr. Kent explained that the funds are placed in a notional account, and that the City is paying the MMO adjusted for the RRP calculation.

Mr. Warren presented charts of the plan for the past 10-year period. Mr. Stitt questioned the spike in benefit payments from 2013 – 2016. Mr. Stagliano explained that the spike resulted from members entering the Deferred Retirement Option Plan (“DROP”) program. Mr. Stagliano noted that participants were concerned with the major market fluctuations and opted for DROP. Mr. Bielli stated that he did not see the relevance in having a negative cash flow line on a graph since an investment return of 0.0% is highly unlikely. Mr. Dubow asked why there wasn’t a line that showed

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
February 22, 2018**

the actual cash flow of the investment return. Mr. Kent stated it can be shown; however, that is not the risk factor of most concern. Mr. Kent asserted that the most critical risk to the pension fund is negative cash flow, specifically benefit payments exceeding contributions. Mr. Stitt asked if the maturity of the plan is controlled for. Mr. Stitt also questioned how the pension fund was performing relative to its peer plans. Mr. Kent explained that newer plans have positive cash flow because there are fewer retirees. Most participants in the City's pension plan are retired members and beneficiaries.

Ms. Patel presented the demographic and financial experience in the last year. Ms. Rynhart inquired if the employee contribution increases during 2018 – 2019 includes the additional amount all contributing members pay into their plan. Mr. Dubow explained that the report is showing Plan 87 and not additional contributions of Fraternal Order of Police ("FOP") or DC 33. Ms. Patel confirmed. Mr. Dubow questioned if the numbers are likely to change once the experience study is shown. Ms. Patel stated there wouldn't be any changes for fiscal year 2019 but it will show changes for future cost.

**Agenda Item #3 – Flash Report for The Period Ending January 2018**

Mr. Smith and Mr. DiFusco presented the Flash Report. Mr. Smith provided a brief market commentary, and Mr. DiFusco reviewed January's performance numbers. Mr. Rodriguez asked how the month of February 2018 looks. Mr. DiFusco answered that the portfolio was estimated to be down 2.4% as of Tuesday, February 20, 2018. Mr. DiFusco explained that the portfolio was trailing its benchmark in February due to the portfolio's overweight to equities. Mr. Dubow asked for any questions. There were none.

**Agenda Item #4 – Investment Staff's Report**

Mr. DiFusco presented the reports. Ms. Howard made requested additional benchmarking information, both as it related to the Plan's Investment Policy Statement as well as the Plan's asset allocation compared to other public pension funds. Mr. DiFusco responded that peer comparison data is available from Marquette in the mid-late third quarter. Ms. Rynhart commented on possible risks with an increased allocation to real estate, and Ms. Howard requested real estate correlations to the rest of the current portfolio. Ms. Stukes-Baylor noted that the Board has carefully debated additional allocations to core open-end real estate, while recognizing that closed-end real estate funds underperformed. Mr. Smith agreed that the correlation coefficient of a real estate fund with the existing portfolio should be considered before making future allocations.

The upcoming Board meetings are March 22, 2018, April 19, 2018 and May 24, 2018. The Trustee Education Seminar will be held on February 26, 2018 at 10:00am. The High-Yield Search Investment Subcommittee Meeting will be held on March 12, 2018 at 1:00pm.

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.

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
February 22, 2018**

**At 12:10 p.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Mr. Coughlin seconded. The motion carried.**

**At 12:10 p.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. Stagliano made the motion. Mr. Coughlin seconded. The motion carried unanimously.**

**At 12:13 p.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Mr. Coughlin seconded. The motion carried.**

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

---

---

Rob Dubow  
Finance Director  
Chair, Board of Pensions and Retirement