

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
March 21, 2019**

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

Present:

Rob Dubow, Finance Director
Jacqueline Dunn, Alternate, Chief of Staff, Office of the Director of Finance
Ronald Stagliano, Vice Chairman, Trustee
Rebecca Rhyhart, City Controller
Marcel Pratt, City Solicitor
Christopher Rupe, Chief of Staff, Office of the Managing Director
Marsha Greene-Jones, Deputy Director of Human Resources
Brian P. 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, Head of Private Markets
Tyrone Jordan, Senior Investment Officer
Kristyn Bair, Investment Officer II
Abdel-Aziz Ibrahim, Investment Officer

Also Attending:

Kellan White, First Deputy Controller
Francois Dutchie, Chief Deputy City Solicitor
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
Kweku Obed, Marquette Associates
Jesus Jimenez, Marquette Associates
Matthew Coyne, Torrey Cove
Nick Hand, City Controller's Office
Matthew Vegari, City Controller's Office
Haylee Nguyen, City Controller's Office
Zachary DeLaRosa, Student, Wharton School of Business
Ralph Cipriano, Philadelphia Magazine
Konstantinos Gus Tsakos, Deputy Director, PICA,
Michael Nairne, Chicago Equity Partners
Anu Patel, Cheiron
Brett Warren, Cheiron

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Agenda Item #1 – Approval of the Investment Committee Minutes of February 21, 2019

At Staff's request, Mr. Dubow deferred consideration and approval of the Minutes for the February 21, 2019 meeting until the April Board meeting.

Agenda Item #2 – Selection of Actuarial Services Firm Pursuant to RFP

Mr. Rubin provided an overview of the RFP process, including the notices given of the opportunity, the responses received, the presentations made by all three respondents to a Subcommittee, and the firms' answers to certain pertinent questions posed by the Subcommittee. Mr. Rubin further noted that the Subcommittee unanimously recommended that the Board retain Cheiron.

Ms. Rhynhart inquired whether a scoresheet should be used during the evaluation of respondents to an RFP. Mr. Bielli responded that Staff will explore that suggestion. He later added that Staff and Consultants do internally use a scoresheet during the consideration of investment managers selected through an RFP process.

Ms. Rhynhart noted that the number of respondents was not that great. Mr. Bielli responded that the 3 responses received was the most respondents since 2007 to an RFP for actuarial services. He repeated the widespread notices given, including publication in a national pension magazine and referenced the anecdotal reports that potential actuarial firms believe they do not have enough capacity to provide actuarial services necessary for a Fund of this size and complexity.

Ms. Stukes-Baylor made a motion to accept the recommendation of the Subcommittee and to hire Cheiron. Mr. Coughlin seconded. The motion passed unanimously.

Mr. Stagliano made a motion to lower the assumed rate of return to 7.55% (effective FY 21). Mr. Coughlin seconded. The motion passed unanimously.

Following the vote, Ms. Rhynhart noted that while she voted in favor of the 5 bps decrease, she wanted to see the Board consider larger increases moving forward. Ms. Rhynhart and Mr. Dubow discussed getting a head-start on the return assumption next year prior to the release of the City's Budget. There would be consideration of the fiscal impact of lowering the return assumption by more than 5 bps.

Agenda Item #3 – KPS Secondary Market Sale – Private Equity

Mr. DiFusco reported on the offer by Hamilton Lane to purchase the Board's remaining interest in KPS Special Situations Fund III. Mr. DiFusco noted although Staff and Torrey Cove regularly receive such offers they do not generally undertake further consideration or bring such offers to the Board for consideration. In this instance, however, Hamilton Lane's offer was very favorable. Mr. Coyne added that secondary market offers are ordinarily at 90-95% of NAV, while here Hamilton Lane offered 104% of NAV. Staff and Torrey Cove performed due diligence and explored secondary offers from other firms and Hamilton Lane offered the most favorable financial terms.

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Mr. DiFusco reported that Hamilton Lane also agreed to pay a specified amount of transactional costs and fees which should cover any additional expense to the Fund. Mr. DiFusco further added that neither Staff nor Torrey Cove anticipated future investments in any KPS fund offering due to the high fees and carry generally charged by this manager. Mr. DiFusco also thanked Adam Coleman of the Law Department for his diligence on the legal documents which negated the need for any use of outside counsel.

Mr. Coyne briefly discussed the one remaining portfolio company in the investment, that KPS vehicle was late in its life cycle, and that the portfolio company is fully valued. Staff and Torrey Cove recommended that the Board accept the offer and approve the sale.

Mr. Stagliano made the motion to approve Staff's recommendation. Mr. Coughlin seconded. The motion passed unanimously.

Agenda Item #4 – Investment Policy Statement and Private Market Guidelines Revisions

Mr. DiFusco reported on the extensive discussion among Staff, Marquette and Torrey Cove, including input and recommendations from the Controller's Office, concerning revisions and refreshing of the Investment Policy Statement (IPS) and Private Market Guidelines (PM). Mr. DiFusco described generally the proposed revisions, noting in summary that the changes clarified responsibilities, removed inapplicable or outdated language, and incorporated some changes considered current best practices.

Mr. Dubow asked Cheiron about the actuarial responsibilities section added to the IPS. Ms. Patel responded Cheiron is comfortable with the language, and she added that the annual valuation report will include more detailed reporting of stress testing and market shock analyses. Ms. Rhyhart inquired whether the actuary would be working alongside the investment consultant to produce in-depth stress tests. They would include market shocks, liquidity risks, and capital constraints. Both Ms. Patel and Mr. Obed agreed to work together this fall during the preparation of the new asset allocation study.

Ms. Rhyhart inquired whether there was a written watch list for the Pension Fund's managers. Mr. DiFusco stated there was no formalized watch list but rather a "buy/hold/sell" list and that managers are monitored through daily reports as well as the monthly reports and reviews. When Staff and/or Marquette have concerns related to an investment manager, those concerns are brought to the Board's attention at the monthly meetings.

Mr. Stagliano made a Motion to approve the IPS and PMG as revised. Ms. Rhyhart seconded. The Motion passed unanimously.

Agenda Item #5 – Flash Report for The Period Ending February 2019

Mr. DiFusco presented the reports. Ms. Rhyhart inquired about the status of the underperforming Opportunistic Fixed Income Managers such as Apollo, KKR and Avenue Coppers. Mr. DiFusco responded that the Board had terminated those managers in 2016.

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Mr. Dubow suggested Staff and Marquette update the flash report to reflect the termination of these managers. Ms. Rhyhart asked if Staff could distribute a list of terminated managers. Mr. DiFusco responded that Staff will prepare and send out such a list.

Ms. Rhyhart also inquired about Fiera and IG. Mr. Obed responded that Fiera's performance is in line with expectations and was a top performer over the longer-term and since inception. Mr. Obed added that IG was a new investment.

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

Agenda Item #6 – Investment Staff's Report

Mr. DiFusco presented the reports, including the planned allocation of the City's RRP/MMO payment received in March. Mr. DiFusco proposed to hold in cash approximately four (4) months to make benefit payments, and to make allocations to certain managers to continue moving the Fund further along the path towards the Board's approved long-term asset allocation.

Mr. Dubow inquired whether the Fund's overall exposure to Rhumblin was a concern. Mr. Obed responded that the concentration is not a significant concern with an index manager.

Ms. Stukes-Baylor noted her concern that the proposed allocations are largely to index managers and that there may be a need for allocations to active managers.

The upcoming Board meetings are April 25, 2019, May 23, 2019 and June 27, 2019

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.

Mr. Coughlin made the motion to accept Staff's recommendation for allocation of the RRP/MMO payment. Mr. Stagliano seconded. The motion passed unanimously.

At 11:52 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Ms. Pankey made the motion. Mr. Coughlin seconded. The motion passed.

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

Rob Dubow
Finance Director
Chair, Board of Pensions and Retirement