

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
May 24, 2018**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 10:51 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16th Floor.

Present:

Rob Dubow, Finance Director
Ronald Stagliano, Vice Chairman, Trustee
Pedro Rodriguez, Director of Human Resources
Rebecca Rhyhart, City Controller
Brendan O'Rourke, Esquire, Chief Deputy City Solicitor
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, Senior Investment Officer
Kristyn Bair, Senior Investment Analyst

Also Attending:

Kellan White, First Deputy Controller
Jacqueline Dunn, Alternate, Chief of Staff, Office of the Director of Finance
Ellen Berkowitz, Esquire, Senior Attorney
Sharolyn L. Murphy, Esquire, Senior Attorney
Lavonia Jenkins, Administrative Assistant
Jeffrey Francis, Nationwide
Emanuel Mahand, Nationwide
Eric Stevenson, Nationwide
Bina Kumar, Nationwide
Erwin Gant, Sturdivant & Co.
Wenting Gao, Office of Human Resources

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Agenda Item #1 – Approval of the Investment Committee Minutes of April 19, 2018

Mr. Dubow requested approval of the Minutes for April 19, 2018. Mr. Rodriguez made the motion. Mr. Coughlin seconded. The motion carried.

Agenda Item #2 – Small Cap International Equity Investment Recommendation

Mr. DiFusco presented the Small Cap International Equity Search Staff Report. He noted that at the February 2017 Investment Committee Meeting, the Board voted to hire three Small Cap International Managers: Strategic Global Advisors; Investor's Group; and AQR. He reported that a second search was issued as a result of unsuccessful contract negotiations with the third manager, AQR. After Staff and Marquette conducted separate due diligence, they agreed to bring in two managers from the second search to present before the Small Cap International Search Subcommittee as a potential replacement for AQR: Times Square Capital Management and Segall Bryant & Hamill. The Subcommittee heard presentations from both managers and inquired on process, performance, manager pairing, and fees. The Subcommittee requested that both firms reconsider their fee proposals.

Mr. DiFusco stated that neither firm was able to comply with the Subcommittee's request for a further fee reduction. Since their proposed fees were higher than those charged by Board's current managers in this space, neither firm was being recommended for hire. Staff in conjunction with Marquette and the Subcommittee recommended to allocate the additional assets slated for this search to the current managers in the Plan, with the bulk going to the index manager, Northern Trust. Considerations for the allocation decision included, among others, performance, correlations and SGA's asset growth.

Mr. DiFusco thanked the Subcommittee for their efforts and focus on maintaining low costs for the Plan.

Ms. Rynhart asked whether Staff would specifically inform the two firms that they were not hired because of fees? Mr. DiFusco confirmed.

Mr. Stagliano made a motion to accept Staff's recommendation not to hire Segall Bryant & Hamill or Times Square, and to instead increase the Board's allocations to the current managers in the Small Cap International space. Ms. Stukes-Baylor seconded. The motion carried unanimously.

Agenda Item #3 – Review of Equity Manager – AJO

Mr. DiFusco presented Staff's review of Large Cap Value Equity manager, AJO. AJO has managed this strategy for the Board since 2001. Overall service and performance has been satisfactory. Staff conducted an onsite visit on April 18, 2018 with concerns around costs and potential for future value

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add to the Plan. AJO offered a performance based fee structure to align performance with costs which Staff and Marquette agreed was an attractive option to recommend to the Board. By way of illustration, Staff explained that the performance based fee, which would be calculated over a five (5) year rolling average, would result in zero fee for underperformance, and fee of 28.5 bps if AJO outperformed its benchmark by 2%. Fees were capped at 57.0 bps should outperformance be 4% or greater.

Ms. Pankey made a motion to accept staff's recommendation to implement a performance based fee structure for AJO. Ms. Stukes-Baylor seconded. The motion carried unanimously.

Agenda Item #4 – Flash Report for The Period Ending April 2018

Mr. DiFusco and Mr. Obed presented the April Investment Flash Report. Mr. DiFusco reported that the fund was up 40 bps for the month, and equal to its policy benchmark. Fiscal year to date, the fund's performance was approximately 100 bps ahead of the benchmark. Mr. DiFusco addressed the top and bottom investment manager performers for the month.

Mr. Obed provided a brief overview of the Market.

Mr. DiFusco asked if there were any questions. There were none.

Agenda Item #5 Staff's Report

Mr. DiFusco presented the reports. The upcoming Board meetings are June 28, July 26, and August 23, 2018. Mr. Dubow asked for any questions. There were none.

Mr. Dubow asked if there was any new or old business, or any other business. There was none.

At 11:26 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Ms. Stukes-Baylor seconded. The motion carried unanimously.

At 11:26 a.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. Rodriguez seconded. The motion passed unanimously.

At 11:27 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Rodriguez made the motion. Mr. Stagliano seconded. The motion passed unanimously.

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

Rob Dubow
Finance Director
Chair, Board of Pensions and Retirement