

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
July 30, 2019**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 9:50 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Ronald Stagliano, Vice Chairman, Trustee  
Rebecca Rhynhart, City Controller  
Marcel Pratt, City Solicitor  
Christopher Rupe, Alternate, Chief of Staff, Office of the Managing Director  
Marsha Greene-Jones, Alternate, Deputy Director of Human Resources  
Brian P. Coughlin, Trustee  
Carol Stukes-Baylor, Trustee  
Veronica M. Pankey, 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  
Brad Nyce, Nationwide  
Jeffrey Francis, Nationwide  
Bina Kumar, Nationwide  
Kweku Obed, Marquette Associates  
Jesus Jimenez, Marquette Associates  
Matthew Coyne, Torrey Cove  
Nick Hand, City Controller's Office  
Imran Idzqandar, City Controller's Office  
Michael Zaccagni, City of Philadelphia Office of Human Resources  
Robert McDermott, City Council  
Erwin Gant, Sturdivant & Co.  
Brian Gorczynski, Veritas  
Daniel Sugar, Veritas  
Natasha Sunderam, Veritas

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
July 30, 2019**

**Agenda Item #1 – Approval of the Investment Committee Minutes of June 27, 2019**

**Mr. Dubow requested approval of the minutes of the Investment Committee meeting for June 27, 2019. Mr. Stagliano made the motion. Ms. Stukes-Baylor seconded. The motion passed unanimously.**

At the request of the Chair, Agenda Item #2 was moved to the end of Agenda.

**Agenda Item #3 – Flash Report for The Period Ending June 2019**

Mr. DiFusco reported the net returns for fiscal YTD (+5%), 3 years (+9.1%), 5 years (+4.9%) and 10 years (+8.5%). Mr. DiFusco noted that preliminary numbers provided by Marquette had been updated after review and exchange of additional information and data between Staff and the Consultants concerning private equity returns.

Mr. Dubow inquired why the policy benchmark number also changed. Mr. DiFusco responded that Staff and Consultants planned to undertake further analysis of the benchmark numbers. He added that Staff will send the Board a memo within the next week regarding the change to the policy benchmark number.

Mr. Dubow asked if the 5% FY return number included private equity and real-estate returns. Mr. DiFusco explained that it did not include private equity and closed end real-estate returns after December 31, 2018.

Mr. Dubow then inquired if the FY return number will change when that additional information is received. Mr. DiFusco responded that he expects an upward revision of the number but could not guarantee anything until the data was received from each manager.

Mr. DiFusco reported that for the quarter the UBS Trumbull Fund lost approximately -3.5%. He noted as probable reasons that UBS took write-downs on the value of some of its assets - particularly in the retail sector. Mr. DiFusco added that UBS was selected as a manager because they used the least amount of leverage compared to other managers in this space. Based on consultation with Marquette and documents reviewed internally, Staff and Marquette do not expect to see continued sizable write-downs by UBS Trumbull.

Mr. Dubow asked whether Staff expects to see positive results moving forward. Mr. Obed stated within the ODCE index they've already seen some of the larger managers begin to take write-downs consistent with a more conservative approach. Mr. Obed stated that one of the biggest managers, JPMorgan, had begun taking write-downs earlier in the year.

Ms. Rhynhart asked what type of properties are causing the write-downs. Mr. Obed stated big mall-retail properties were a significant driver of mark-downs. Ms. Rhynhart asked if we should expect to see write-downs for Clarion as well. Mr. Obed stated he did not expect to see the same with Clarion as their retail exposure-grocery store anchors-is different. Marquette does expect normal returns, by historical standards, to come from real-estate assets in the upcoming quarters.

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
July 30, 2019**

Mr. Bielli asked what has changed to cause the write-downs if the rent rate has not decreased. Mr. Obed explained that the decrease is a projection of where retail is headed but no changes have occurred from the occupancy or yield standpoint.

Mr. Bielli asked if they are projecting a lower occupancy and yield. Mr. Obed responded that they are not—they project that consumer demand would decrease in the future.

Ms. Rhynhart asked are they projecting that the income stream would be lower in the future. Mr. Obed stated that it is not a change in the income stream, but rather they do not expect their retail properties to appreciate as much.

Mr. Dubow asked if the occupancy and rent rates stay the same, why would the properties not appreciate. Mr. Obed explained that these are future projections. Mr. Obed stated that in real-estate the returns derive from occupancy and the coupon income.

Mr. Stitt asked how long the lease terms for the properties in this investment vehicle were. Mr. Obed stated that it depends on the property, as terms vary lease by lease.

Mr. DiFusco noted the estimated return MTD to July 23, 2019 for the Fund was up 70 basis points ahead of the benchmark and YTD was 10 basis points ahead of benchmark.

Mr. Obed provided an update on the two International Small-Cap managers and Causeway's performance. Mr. Obed reported that YTD Causeway returned 10.9% net of fees, underperforming the benchmark by 3.1%, primarily due to stock selection. Mr. Obed stated that overall Causeway's investment process has remained consistent and is being executed as prescribed. He recommended that the strategy remain in compliance.

Ms. Rhynhart asked if there was a continuous lag in performance why shouldn't the Board consider a new manager. Mr. Obed responded that underperformance was not straight line and included overperformance certain years. Mr. Obed stated that, overall, Causeway's investment process has remained consistent and they have not deviated and therefore it's not the appropriate course to fire Causeway.

Mr. Bielli added that there has been a lot of changes made since 2011, including asset allocation, and maybe they should take a closer look at Causeway. Mr. Obed responded there was no concern with giving this manager a closer look.

Ms. Rhynhart stated that she was concerned but willing to discuss further action with respect to this manager at the September meeting in conjunction with the asset allocation update.

Mr. Obed continued with an update for International Small Cap Managers. Both strategies have underperformed their respective benchmarks since inception, but they have only been held for a short period. They are outperforming on their longer-term track record. Marquette recommends both strategies stay in compliance and does not recommend any action currently.

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

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
July 30, 2019**

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

Mr. DiFusco presented the reports.

The upcoming Board meetings are August 22, 2019, September 26, 2019 and October 24, 2019.

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

**Agenda Item #2 – Private Equity Investment Recommendation**

Mr. Dubow announced that he will abstain from any participation in the discussion or vote on this matter as a result of a potential conflict of interest and left the meeting during the discussion, presentation and vote on this item. Mr. Stagliano assumed the role of Chair.

Ms. Cherry, Mr. Buckley and Mr. Coyne presented the report and recommendation of Staff and Torrey Cove for a commitment by the Pension Fund of \$25 million in Veritas Capital Fund VII (“Veritas Fund VII”). Veritas Fund VII will invest in the controlling securities of mid-to-large companies that focus on government services, defense, and other related industries. Torrey Cove and Staff concluded, after due diligence and consideration of the potential returns and risk mitigation factors, that Veritas Fund VII offered the Board an attractive and prudent investment opportunity.

Mr. Brian Gorczynski, Mr. Daniel Sugar, and Ms. Natasha Sunderam of Veritas Capital made the presentation to the Board. They described their work experience and background, the investment team’s deep experience and stability, the managing partner’s unique top-level security clearance, the concentrated portfolio approach, and the history of strong and consistent “best in class” performance. Founded in 1992, Veritas is a New York-based equity firm with approximately \$11.2B in AUM. Veritas believes its strategic enhancement approach has enabled its portfolio companies to grow faster, generate higher margins, and command premium multiples at exit.

Ms. Rhyhart noted the strong track record and asked whether Veritas had identified any risks. Mr. Gorczynski stated although they worry about everything and each business has its own challenges, they were confident they can address and resolve any issues.

Mr. Coughlin asked whether there were any concerns with handling a \$5 billion fund when the Firm had previously raised a total of \$7 billion in the earlier investment vehicles. Mr. Gorczynski responded that they were not concerned since their last investment was approximately \$3.5 billion and they had no plan to change their philosophy or process in handling any investment deals. Mr. Sugar added that they have found that the larger scale helps with some of the larger portfolio companies.

Mr. Bielli asked if Veritas will use leverage. Mr. Gorczynski responded that they do use leverage judiciously and appropriately for each deal as well as equity contributions.

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
July 30, 2019**

Ms. Rhynhart inquired of the effect of a 2008-like financial crisis. Mr. Gorczynski responded that Veritas grew in double digits during that market crash.

Ms. Stukes-Baylor asked about the proposed fees and whether Veritas considered reducing their fees. Mr. Gorczynski stated the terms including fees had been set, the team was growing, the firm had delivered top performance, and they were driven to generate same type of returns to earn those fees.

Mr. Stitt noted the high retention rate of Veritas and asked how Veritas maintained it. Mr. Sugar responded that the firm's culture was a primary factor, its mission focus, internal advancement potential and the "runway" given so that employees can assume significant responsibilities.

**Mr. Stagliano requested a motion. Mr. Coughlin made a motion to accept the recommendation as proposed. Ms. Rhynhart seconded the motion. The motion passed unanimously**

Mr. Stagliano asked if there was any new or old business. Ms. Rhynhart indicated that she had received correspondence and communications regarding divestment from nuclear industry stocks. Mr. DiFusco responded that Staff and Consultants analyzed their exposure.

Mr. Stagliano asked if there was any other business. Ms. Pankey made a motion to approve attendance at upcoming NCPERS conferences. The motion was approved unanimously.

Mr. Stagliano asked if there was any other business. There was none.

**At 11:41 a.m., Mr. Stagliano requested a motion to adjourn the Investment Committee Meeting. Ms. Stukes-Baylor made the motion. Ms. Greene-Jones seconded. The motion passed unanimously.**

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

---

---

Rob Dubow  
Finance Director  
Chair, Board of Pensions and Retirement

