

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
September 28th, 2017**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 10:00 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Pedro Rodriguez, Director of Human Services  
Brian Abernathy, Alternate, First Deputy Managing Director  
Francois Dutchie, Chief Deputy City Solicitor  
William Rubin, Alternate, First Deputy 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  
Dominique A. Cherry, Senior Investment Officer  
Tyrone Jordan, Senior Investment Officer  
Eryn-Ashlei Bailey, Investment Officer  
Kristyn Bair, Senior Investment Analyst

Also Attending:

Paula Weiss, Esquire, Alternate, Deputy, Office of the Chief Administrative Officer  
Adam Coleman, Esquire, Assistant City Solicitor  
Ellen Berkowitz, Senior Attorney  
Robert O'Donnell, O'Donnell Associates  
Lavonia Jenkins, Administrative Technician  
Teresa Devine, Administrative Officer  
David Smith, Marquette  
Jeremy Zurin, Marquette  
Matthew Coyne, Torrey Cove  
Emanuel Mahand, Nationwide  
William Greene, Loop Capital  
Pam McCue, Finance Investment News  
Maureen O'Brien, Segal Marco Advisors  
Bradley T. Akins, Franklin Park  
Kristine A. O'Connor, Franklin Park  
Raymond T. Jackson, Franklin Park

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**Agenda Item #1 – Approval of the Minutes of August 24th, 2017**

**Mr. Dubow requested approval of the Minutes for August 24th. Ms. Stukes-Baylor made the motion. Mr. Abernathy seconded. The motion passed.**

**Agenda Item #2 – Raspberry Street II Investment Recommendation**

Mr. DiFusco presented a joint recommendation from Staff and TorreyCove for a \$75M co-investment allocation to Franklin Park's Raspberry Street Fund II. The additional \$75M allocation will advance progress toward CPBPR's Board-approved allocation to private equity.

Mr. Buckley stated that the CPBPR currently has two investments with Franklin Park. These investments include a 2008 Venture Series Fund with a net IRR return north of 17%. There is a remaining \$15M capital commitment to this fund. The second investment is a \$75M commitment with a net IRR return north of 21%.

Mr. Buckley noted that Franklin Park ("FP") is well regarded, and is expanding internationally. The CPBPR fund is concentrated in North America. Recently, FP opened offices in Hong Kong and Dublin, Ireland. The opening of these international offices will allow FP to cultivate strong relationships with general partners in Europe and in Asia. These strong relationships will potentially lead to a greater network to help develop attractive deal flow internationally.

Ms. Bailey discussed the current climate in private equity. She provided a broad overview of increased fundraising levels in private equity. The amount of dry powder, or uncalled capital, is creating increased competition in the private equity market. This competition makes it more difficult to access attractive deals with proven general partners, who have realized attractive return multiples for limited partners.

The competitive advantage of partnering with FP in an increasingly challenging environment is their strong relationships to general partners. These strategic relationships should assist with entry into attractive deals that may be inaccessible otherwise.

Ms. Bailey also highlighted FP's demonstrated commitment to diversity. FP is 35.5% diverse-owned. FP engages a consultant in its hiring process. Part of the consultant's mandate includes a directive to identify qualified minority candidates from diverse backgrounds.

Mr. Bielli asked whether there is any concern about manager concentration risk with an additional \$75M commitment to Franklin Park. Mr. Coyne answered that the CPBPR currently has an approximate exposure of 21% of the private equity allocation to FP. The CPBPR's guidelines establish a threshold of 20% of the entire CPBPR fund to any one manager in private equity. Therefore, with an additional \$75M allocation to FP, the CPBPR would still be well below the threshold.

Mr. Bielli asked whether the initial \$75M allocation to Raspberry Street Fund I was fully deployed at this point. Mr. Buckley stated that Raspberry Street Fund I has approximately \$21M

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in uncommitted capital as of March 31, 2017. Mr. Coyne stated that Raspberry Street Fund I is in the 80% committed capital range. As the Venture Series 2008 and Raspberry Street Fund I continue to wind down, the allocation to Franklin Park will decrease from the unwinding on the first two commitments, and level out with the additional paced commitment to Raspberry Street Fund II. Staff and the Consultant acknowledge that there could be concern with manager concentration risk. However, given the unwinding of the two existing funds, Staff and the Consultant do not believe there is inordinate manager concentration risk with an additional \$75M allocation.

Mr. Rubin asked about the typical investment period, or J-curve in private equity. Mr. Coyne answered that the investment period is typically 5 years and the life of the fund lasts for typically 10 years with additional one-year term extensions if approved by limited partners.

Mr. Rubin asked if the CPBPR pays fees on committed capital and called capital, or on called capital only. Mr. Coyne clarified that fees are assessed on committed capital during the investment period and at 50 basis points on the remaining cost basis. Mr. Coyne stated that FP is proposing 75 basis points for Raspberry Street Fund II.

Mr. Atkins, Ms. O' Connor and Mr. Jackson, presented FP's investment strategy for Raspberry Street Fund II to the Board.

Mr. Dubow asked about the proposed increase in fees for Raspberry Street Fund II. Mr. Atkins answered that FP is proposing a 75-basis point fee based on market research of similar deal sizes and similar strategies in the market. Mr. Dubow referenced the strong historical relationship between the CPBPR and FP. Mr. Dubow also underscored the Board's earnest commitment to keeping costs as low as possible for the benefit of the pension plan participants.

Mr. Dubow referenced the established relationship between the CPBPR and FP. Mr. Dubow requested that Staff negotiate fees with Franklin Park and report back to the Board at the Thursday, October 26, 2017 Board meeting.

**Mr. Dubow requested a motion. Mr. Rubin made the motion to table the decision for 30 days. Mr. Abernathy seconded the motion. The motion passed.**

**Agenda Item #3- Segal Marco Advisors Update**

Mr. DiFusco explained that Maureen O'Brien from Segal Marco Advisors would provide a brief overview of the Board's proxy voting and shareholder advocacy for the year 2016 – 2017, and planned proxy voting and initiatives for the year 2017 – 2018. Mr. DiFusco also mentioned that the CPBPR joined on as a signatory to a letter from The Thirty Percent Coalition. The letter is sent to corporate boards of public companies, and advocates for gender and racial diversity at the board level. A letter is expected to go out within the next couple of weeks. Mr. DiFusco also

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mentioned an article in the Wall Street Journal that discussed “over-boarding”, where board members may become less effective if they sit on too many boards.

Ms. O’Brien, of Segal Marco Advisors, presented FP’s proxy voting report to the Board. Segal Marco voted on nearly 42,000 proposals at almost 3,800 separate companies on behalf of the Fund. In 2016-2017, Segal Marco also presented planned proposals with 29 companies out of which 13 (45%) were implemented by the companies.

Mr. Bielli inquired whether and how Segal Marco monitors a company’s implementation. Ms. O’Brien explained that if corporate boards do not comply with the shareholders’ proxy votes or the agreement to implement a proposal, shareholders will typically vote against those Board members during subsequent voting sessions. Hence, executives tend to heed the sentiments conveyed by shareholder votes.

Mr. Dubow asked if there were any additional questions. There were none.

Segal Marco recommended a change to the Board’s Proxy Voting Policy with respect to the election of directors and review/selection of candidates to the effect that the Policy would include “diversity” as a factor in electing directors to a company’s board. Segal Marco submitted revised text for the change to Section 1.01 of the Policy: Election of Directors- Uncontested Elections:

“Another factor that will be considered when reviewing candidates will be the diversity of board nominees in terms of race, gender, experience and expertise.”

**Mr. Rubin made a motion to approve the revision to the Proxy Voting Policy as proposed. Ms. Stukes-Baylor seconded the motion. The motion passed.**

**Agenda Item #4 – Flash Report for the Periods Ending August 2017**

Mr. DiFusco presented the reports.

Mr. DiFusco commented that last year the Board approved 3 small cap international equity managers. AQR was one of those managers. Legal negotiations were incredibly difficult and were unsuccessful. Mr. DiFusco recognized that the law department did an exceptional job in protecting the interests of CPBPR. Due to the inability to negotiate legal terms, CPBPR was unable to move forward with an allocation to AQR.

Ms. Weiss asked whether the Board could redistribute the allocation to the two remaining managers? Mr. DiFusco responded that given the sizing issue he recommends the use of a third manager. The staff prefers to see more current data for the selection of a third manager.

Mr. Bielli asked do we need a replacement for SIM? Mr. Smith responded that performance can fluctuate in the high yield bond sector and that Staff and Consultant will monitor.

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

**Mr. Dubow requested a motion. Mr. Rubin made a motion to issue two RFPs, one for the international small cap space and the other for high yield. Ms. Stukes-Baylor seconded the motion. The motion passed.**

**Agenda Item #5 – Investment Staff’s Report**

Mr. DiFusco presented the reports. Mr. Dubow asked for any questions. There were none.

The upcoming Board meetings are October 26<sup>th</sup> and December 7<sup>th</sup> and the Education Seminar is scheduled for November 7<sup>th</sup>.

Mr. Dubow asked if there was any new or old business.

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

**At 11:22 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Rodriguez made the motion. Ms. Carolyn Stukes-Baylor seconded. The motion passed.**

**At 11:22 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. Rodriguez made the motion. Mr. Abernathy seconded. The motion passed.**

**At 11:23 a.m., Mr. Dubow requested a motion to adjourn the City of Philadelphia Board of Pensions and Retirement Meeting. Mr. Dutchie made the motion. Mr. Rodriguez 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

