

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
December 6, 2018**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 10:22 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Jacqueline Dunn, Alternate, Chief of Staff, Office of the Director of Finance  
Ronald Stagliano, Vice Chairman, Trustee  
Rebecca Rhynhart, City Controller  
Christopher Rupe, Chief of Staff, Office of the Managing Director  
Marsha Greene-Jones, Deputy Director of Human Resources  
Francois Dutchie, 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, Esquire, Chief Compliance Officer  
William Rubin, Audit Manager  
Dominique A. Cherry, Senior Investment Officer  
Tyrone Jordan, Senior Investment Officer  
Abdel-Aziz Ibrahim, Investment Officer

Also Attending:

Kellan White, First Deputy Controller  
Ellen Berkowitz, Esquire, Senior Attorney  
Adam Coleman, Assistant City Solicitor  
Sharolyn L. Murphy, Esquire, Senior Attorney  
Lavonia Jenkins, Administrative Assistant  
Neshea Bumpus, Clerk Typist I  
Jeffrey Francis, Nationwide  
Brad Nyce, Nationwide  
Emanuel Mahand, Nationwide  
Bina Kumar, Nationwide  
Kweku Obed, Marquette  
David Smith, Marquette  
Matthew Coyne, TorreyCove  
Pam McCue, Financial News  
Erwin Gant, Sturdivant & Co.  
Joe Teague, ICMA  
Nick Hand, Director of Finance, Policy & Data, City Controller's Office  
Matthew Vegari, Senior Associate, Finance, Policy & Data, City Controller's Office  
Richard E. Spencer, Barings  
Mina Pacheco Nazemi, Barings  
Allen Ruiz, Barings  
Jackie Hattler, Barings

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

**Mr. Dubow requested approval of the Minutes for October 25, 2018. Mr. Stagliano made the motion. Mr. Coughlin seconded. The motion carried unanimously.**

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

Mr. DiFusco and Matthew Coyne of Torrey Cove presented the recommendation for a \$75 million investment in The Barings Co-Investment Separate Account (“BCI SMA”), as part of the Board’s Private Markets portfolio. Mr. DiFusco stated that Barings has a good focus on smaller emerging market and diverse companies which have an enterprise value of \$300,000,000 or less. He also noted that Barings offered significantly lower fees than the average in the PE space.

Ms. Rynhart asked, what was the process used to make the recommendation on First Capitol Fund and why was Barings chosen? Mr. Coyne described the due diligence process, noting that he and the Philadelphia Investment Staff identified approximately 20 firms and conducted a thorough review of 12 firms that were actively raising capital. Staff and Torrey Cove concluded that Barings was the best based on factors such as: strong track records, high quality investment team; willing to customize; attractive fees and terms, and their focus on diverse managers.

Mr. Bielli asked for clarification on the fees of The First Capitol Fund. Mr. DiFusco explained there usually is a 4-year investment period to draw capital and the Management Fee will be 85 basis points per annum of actively invested capital for the life of the fund. Mr. DiFusco stated the Investment Staff and Legal had negotiated protective terms such as Key Person and No-Fault clauses by which the Board can terminate the investment period at any time without penalty.

Ms. Rynhart asked, if the investment period is terminated, will the money invested be returned? Mr. Coyne stated, although there will not be any penalties, the remaining uninvested capital would not be invested, and Barings will continue to manage the initial invested capital.

Ms. Rynhart asked about the termination process. Mr. Coyne explained that within the investment period the amount that had already been invested, Barings would continue to manage those investments and could decide to sell the fund.

Mr. Stagliano asked, if the Key Person decided to leave the firm would the Board be able to continue with the First Capitol investment? Mr. Coyne and Mr. DiFusco stated that the Board would be able to continue with the investment, as the No-Fault clause would then supersede the Key Person Agreement. Ms. Rynhart asked, if there was ever consideration to invest less than \$75M? Mr. Coyne referred to the presented materials stating that he and the investment team liked Barings lower market deals better than the big deals of other PE firms and allowed for diversification with a focus on the lower end of the middle-market. Mr. DiFusco also mentioned the importance of staying on target with the Board’s private equity pacing goals of \$100M-\$150M for the calendar year.

Ms. Rynhart stated she was still concerned about investing \$75M instead of \$25M recommended for other PE firms recently. Mr. DiFusco noted that it is a significant challenge to engage a PE firm to handle a separate account and keep the fees as low as they are for only \$25M. Ms. Rynhart questioned Barings having 25 investments since 2015 as the City of Philadelphia would be taking on a large portion of those investments alone. Mr. Coyne stated Barings is in a transitional stage and had previously only been investing under Mass Mutual.

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Since then, they have signed up four (4) other public pensions plans and all co-investment opportunities would be shared; the Board will not be a sole public pension investor.

Mr. Spencer, Ms. Nazemi, Mr. Ruiz and Ms. Hattler of Barings presented a brief overview of the firm.

Mr. Stagliano asked, does the vote of the Barings Investment Committee need to be unanimous? Mr. Ruiz and Mr. Spencer stated it does not have to be unanimous but requires an affirmative vote of 5 of the 8-member IC. Mr. Dubow asked about Barings' screening and selection process and how does the firm receive deals. Ms. Nazemi explained, that they do have their own individual deal sourcing process and a deep network. The firm will provide a lot of transparency to make sure the Board is aware of all steps taken and is comfortable with any decision. Mr. Dubow asked what happens if the client doesn't feel comfortable with a co-investment opportunity. Ms. Nazemi stated the client's comfort and identified concerns would be taken into consideration before moving forward with a deal.

Ms. Rhyhart questioned once the Board puts their money into a specific co-investment, how many other investors would be in the co-investment? Ms. Nazemi stated it may only be 1-2 other investors. Mr. Dubow asked if there was a cap for co-investment. Ms. Nazemi explained Barings will not put more than 15% into a specific deal.

Ms. Rhyhart pointed out a few lower performing investments from previous Barings deals. Mr. Spencer explained some mistakes were made in the past. However, important investment lessons were learned and have been addressed.

**Ms. Stukes-Baylor made a motion to approve Staff's recommendation for a \$75M investment to Barings. Mr. Dutchie seconded. The motion carried unanimously.**

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

Mr. DiFusco presented the performance reports. Mr. Obed presented an update on proposed changes to the Fund's policy benchmark. At the request of Ms. Rynhart and as agreed to by the other Trustees, further analysis on this topic was to be presented at the January Board meeting.

Mr. DiFusco stated AJO & Ariel's 6-month review would be complete by the end of December. Memos will be provided at the January Board meeting.

Ms. Rynhart asked about the performance for Brandywine, as their performance numbers weren't that strong. Mr. Smith and Mr. Obed stated the fluctuation is due to the emerging market exposure in the Brandywine portfolio Brandywine hasn't done anything different. However, the investment environment has not been helpful to them.

Ms. Rynhart asked for a summary of the quarterly private equity investments. Mr. DiFusco noted that Staff and Torrey Cove will provide a portfolio review at the next Board meeting. Mr. DiFusco also indicated that he would send out Torrey Cove's quarterly private equity reports to the entire Board as they became available. Mr. Dubow asked for any questions. There were none.

**Agenda Item #4 Investment Staff Report**

Mr. DiFusco presented the reports.

The upcoming Board meetings are January 24, 2019, February 28, 2019 and March 28, 2019. The Trustee Education Seminar will be held on January 31, 2019 at 10:00am.

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.

**Ms. Stukes-Baylor invited a motion to approve attendance for those interested in the NCPERS Legislative Conference located in Washington, DC on January 27 through January 29, 2019.**

**Mr. Stagliano made the motion. Mr. Coughlin seconded. The motion carried unanimously.**

**At 11:42 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Mr. Coughlin seconded. The motion passed unanimously.**

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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

