

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
OCTOBER 22, 2014**

MEETING MINUTES

There being a quorum, Rob Dubow, Finance Director, Board Chair, called the Investment Committee Meeting to order 9:31 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16th Floor.

Present:

Rob Dubow, Finance Director
Paula Weiss, Esquire, Alternate, Deputy Director of Finance
Alan Butkovitz, Esquire, City Controller
William Rubin, Alternate, First Deputy City Controller
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor
Brian Albert, Alternate, Deputy Human Resources Director
Patricia Fitzgerald, Alternate, Human Resources Program Specialist
Carol Stukes-Baylor, Trustee
Ronald Stagliano, Vice Chair, Trustee
Andrew P. Thomas, Trustee
Veronica M. Pankey, Trustee

Francis X. Bielli, Esquire, Executive Director
Shamika Taliaferro, Deputy Pension Director
Sumit Handa, Esquire, Chief Investment Officer
Brad Woolworth, Deputy Chief Investment Officer
Christopher DiFusco, Esquire, Director of Investments
Dominique A. Cherry, Investment Officer
Daniel Falkowski, Investment Officer
Aubrey Hassan, Investment Analyst
Kristyn Bair, Investment Analyst

Also Attending:

Ellen Berkowitz, Esquire, Deputy City Solicitor
Katharine Janoski, Esquire, Assistant City Solicitor
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor
Mark J. Murphy, Board of Pensions
Daina Stanford, Administrative Assistant
Donna Darby, ClerkStenographer II
Carmen Heyward, ClerkStenographer II
Charles Jones, Executive Director, Sinking Fund Commission
Mark Johnson, Cliffwater

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Stephen Nesbitt, Cliffwater
Chris Shepherd, Cliffwater
Brendan Kilfeather, Logan Circle Partners
Scott J. Moses, Logan Circle Partners
Todd Howard, Logan Circle Partners
Eli Ungar, Lyrical-Antheus Capital, LLC
David Gefsky, Lyrical-Antheus Capital, LLC
Susie Charendoff, Lyrical-Antheus Capital, LLC
Pam McCue, Financial Investment News

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Agenda Item #1 – Approval of Minutes of September 30, 2014

Mr. Dubow opened the meeting and requested approval of the minutes of September 30, 2014. Staff advised that the minutes of the meeting for September were not ready.

Mrs. Stukes-Baylor made a motion to table. Mr. Stagliano seconded. The motion passed.

Agenda Item #2 – Opportunity Fund – Fixed Income Manager Search Recommendation

Mr. Handa took time to talk about the recent industry reaction to volatility by exiting hedge funds. He reminded the Board that hedge funds were not an asset class but a vehicle to express a view. Staff and Cliffwater believed that the time to use them was when they could get something that they could not necessarily get in the public domain. Staff and Cliffwater believed in using the most cost effective way of expressing an idea. So, it was not just about the cost, but also about the value from using hedge funds. He cited three to four hedge fund managers in the Fund's portfolio that demonstrated uncorrelated, significant alpha. He offered Staff and Cliffwater's advice not to completely exit hedge funds.

Mr. Handa introduced Logan Circle Partners Emerging Market Debt-Fixed Income to the Board, as a result of their decision one year and a half ago to change from a manager-of-manager program to go to direct relationship in our local, diversity, and emerging manager program. Staff's search process ended with Logan Circle Partners. Staff, Cliffwater as well as members of the Subcommittee met with them, and if approved, the allocation would be \$70.0 million.

The next request for Board approval was to take money from JP Morgan ETF I:Shares from Blackrock to fund Logan Circle.

Mr. Dubow asked Mr. Handa why they (Staff) were requesting to take money from that space. His response was that there was no active management there, per se, and that emerging markets, particularly, the debt strategy, had been volatile in the last few weeks. Logan Circle demonstrated that they could not only generate returns but significantly outperform an ETF.

Mr. Woolworth added from a cost perspective, Logan Circle was willing to charge 37 basis points versus the ETF, which was at 60 basis points.

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Messrs. Brendan Kilfeather, Scott J. Moses and Todd Howard provided an update on Logan Circle Partners and their recent meeting with Staff and the Subcommittee.

The update provided a background of the firm, the members of the team as it related to their emerging market debt space and the risk versus return performance of the product. The presentation was followed by Board Q&A.

Mrs. Stukes-Baylor asked about the manager's percentages of minorities and women in their firm. Mr. DiFusco responded that Staff sent the information previously and would be happy to send it again.

Mr. Stagliano made the motion to approve the \$70.0 million investment. Mr. Albert seconded. The motion passed.

Mr. Dubow requested a motion to liquidate the ETF I:Shares. Mr. Stagliano made the motion to terminate JP Morgan/Blackrock and take the money from JP Morgan/Blackrock to fund this mandate. Mr. Albert seconded. The motion passed.

Agenda Item #3 Real Assets – Lyrical-Antheus Realty Partners IV, LP

Mr. Handa began with Staff's recommendation for an allocation to Lyrical-Antheus Realty Partners, IV, LP. He indicated that the manager was here to present and invited Board questions and discussion.

Mrs. Stukes-Baylor expressed concern, with respect to the issue of transparency, and in light of Internal Revenue and GASB standards, that the manager should be using an outside auditing consultant. She also questioned whether or not the cost should be the Board's responsibility.

Mr. Nesbitt requested an opportunity to express Cliffwater's concerns related to the manager's proof of concept and the fund's ability to make money over the last nine years.

At 10:00 a.m., Mr. Dubow called for Executive Session.

Mrs. Stukes-Baylor made the motion to table Agenda Item #3. Mr. Stagliano seconded. The motion to table passed.

At 10:40 a.m., Mr. Dubow advised that the Executive session discussed personnel and legal matters.

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Mrs. Stukes-Baylor made the motion to untable the motion to table for Agenda Item #3. Mr. Stagliano seconded. The motion passed.

Lyrical-Antheus representatives Eli Unger, David Gefsky and Susie Charendoff began by describing how they would present their product and that they would address Cliffwater's concerns about their underlying business.

After presenting Lyrical-Antheus' product, process and profits, the presentation was open to Board questions.

Mr. Unger responded to Board questions about their profitability in the last three to five years, how Fund IV would be invested and distributed, and the size and timing of the distributions. His response was that the Fund was currently 30% invested and about 50% committed. They would be investing all of the capital between now and next year. Lyrical-Antheus assumed a lag of 18 to 24 months from when they called capital until that capital was producing return. The traditional form of distributions was quarterly.

Mr. Bielli noted that Lyrical-Antheus' accounting was appropriate under GASB, and that they were willing to use a third party accounting process for the Board's review. He asked if the Board would be assuming that cost. Mr. Unger said that they [Lyrical-Antheus] would carry the cost.

The manager presentation concluded.

Ms. Pankey asked how often the managers provide statements. Mr. Woolworth said that they provided quarterly statements, but only annual statements were audited.

Mr. Nesbitt responded to Mr. Dubow's question about the discrepancy in the report's quarterly returns from page 15 of 25 (Exhibit #12) on Cliffwater's report. Mr. Nesbitt noted that the numbers were from 2013 and the most recent that the manager would provide.

Ms. Pankey requested, if the Board desired to engage in business with Lyrical-Antheus Realty, that it be within the contract that they provide an annual audit at their [Lyrical-Antheus] expense.

Mr. Handa said that the manager agreed to those terms. Staff had extensive negotiations with all of the managers before bringing them to the Board, after the Law Department's input. Ms. Pankey asked if the audit would be done by a third party, and Mr. Handa said yes.

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Mrs. Stukes-Baylor requested that the record reflect that the manager stated that they would agree to do the audit, and Ms. Pankey added that the audit was to be done by an independent (3rd) party.

Mr. Stagliano made the motion to approve the investment for \$30.0 million. Mr. Albert seconded. The motion passed.

Agenda Item #4 – Resolution Seeking Political Spending Disclosures

Following its tabling at the September Board meeting, Mr. Butkovitz returned to the Board a request for consideration and vote related to a resolution that managers disclose their political spending activity.

Mr. Butkovitz provided background information related to a national movement to address the anonymity of big money in political campaigns. There was a petition signed by many people to get it on the agenda of the Securities and Exchange Commission, and it was removed by the chairman without explanation. Mr. Butkovitz stated that the forces that are amassing these funds find it to be an embarrassing topic. They do not want disclosure.

The resolution effectuated an avenue of disclosure. In prior iterations, there was consideration of proxy votes to require some kind of vote within corporations to authorize this use of shareholders' money for secret political agendas of people in management. This is a substantial backing off of that kind of aggressive action.

He was taking the position that had been a hallmark of the administration in Philadelphia for the last eight years. Sunlight was a disinfectant. Transparency is good. More information for the public allows for enlightened public decision making, and embodied the entire spirit and intent of the First Amendment, making the maximum amount of information about public things available to the public.

Mr. Dubow requested a motion for the current managers to give that disclosure.

Mr. Stagliano requested confirmation that the start date was for January 1st. Mrs. Stukes-Baylor asked if it was January 1, 2015. She made the motion to approve the resolution. Mr. Albert seconded. The motion passed.

Mr. Leonard stated for the reasons that the Law Department set forth in the Executive Session, that they recommended against the resolution. They believed that it constituted an undue risk of litigation.

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Mr. Stagliano took time to thank the City Controller, Mr. Alan Butkovitz, for his contributions to the Board since he was elected. He said that it was great for the Fund, and people could see the results of what they had done over the last eight years. He extended appreciation on behalf of all of the members that he represents. Mr. Dubow and Mr. Bielli said that they seconded Mr. Stagliano's statement.

Mr. Dubow asked if there were other comments on the resolution. Hearing none, he asked for a motion.

Mrs. Stukes-Baylor made the motion to approve the resolution. Mr. Stagliano seconded. Mr. Dubow requested a vote. There were four in favor: Mrs. Stukes-Baylor, Mr. Stagliano, Mr. Thomas and Mr. Butkovitz. Three were opposed: Mr. Leonard, Mr. Albert and Ms. Fitzgerald. Ms. Pankey abstained. The Chair then voted in opposition to the motion, thereby resulting in a tie vote. The motion failed 4-4-1.

Agenda Item #5 – Flash Report for Period ended September 2014

Mr. Johnson provided an update from the September and the 3rd Quarter reports. His focus was on September, where every investment sector was down during the month. He noted that October, early on, was also negative.

He reported total Fund performance as having (page 6) a difficult start to the year, with the market and the portfolio down, representing a total Fund drop of -1.95% in September. It slightly underperformed the policy benchmark.

Agenda Item #6 – Chief Investment Officer's Report

Mr. Handa talked about the Security Lending program and reported that year to date the program generated a little over \$2.0 million. His projection for October was that it would be profitable.

He reported Quality "D" as declining to approximately \$300,000.

He presented the percentage breakdown of diversity and local managers. As part of this effort, the Board approved Logan Circle for \$70.0 million. He advised that updated numbers would be reflected in December's report.

For the Independence Fund, Mr. Handa noted that the fund had been disappointing and down a little over 1% this month, mainly because of two positions. The last several weeks had been challenging.

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Mr. Dubow asked Mr. Handa if it was getting a little better. Mr. Handa said, as of now, the market was up by about, 35 basis points [today] and the S&P was only down by about 1.3% for the month. He reminded the Board that last Wednesday, the markets were down a little over 7.5% for the month. So, it represented a 600 basis points move in one week. It was his hope that it could continue. It was his expectation that the volatility would be in place into the near future.

There will be no meeting in November. The next Deferred Compensation Plan Committee Meeting and Investment Committee Meeting is scheduled for December 4, 2014.

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

He requested a motion to adjourn.

New Business

Ms. Pankey asked if they could reconsider Agenda Item #4 (Resolution Seeking Political Disclosure).

Mr. Rubin made the motion to reconsider Agenda Item #4. Mr. Stagliano seconded. Mr. Dubow requested a vote for reconsidering. The motion passed 5-3.

Mr. Dubow requested a motion for Agenda item #4, the Resolution Seeking Political Disclosure. Mr. Butkovitz made the motion to approve. Mr. Stagliano seconded. Mr. Dubow requested a vote. Five were in favor: Mr. Butkovitz, Mr. Stagliano, Mrs. Stukes-Baylor, Mr. Thomas and Ms. Pankey. Three were opposed: Mr. Leonard, Mr. Albert and Ms. Fitzgerald. There were no abstentions. The motion passed 5-3.

Mr. Dubow asked if there was other new business.

Old Business

Mrs. Stukes-Baylor addressed the e-mail that she sent to Staff that questioned a September report when Cliffwater reported about Advent Capital Management and the violation of the SEC ruling 105. She asked if Cliffwater saw another report, and if Cliffwater knew that Blackrock was also on the report Mr. Johnson said that he had not seen that.

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At 11:35 a.m., Mr. Dubow made a motion to adjourn the Investment Committee Meeting. Mrs. Stukes-Baylor made the motion. Mr. Stagliano seconded. The motion passed.

At 11:35 a.m., Mr. Dubow called into session the full Board of Pensions and Retirement and requested a motion to confirm all actions taken at both the Deferred Compensation and the Investment Committee Meeting. Mr. Albert made the motion. Mr. Stagliano seconded. The motion passed.

At 11:35 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

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

Rob Dubow, Finance Director
Board Chair