

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
December 7th, 2017**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 9:52 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16<sup>th</sup> Floor.

Present:

Rob Dubow, Finance Director  
Jackie Dunn, Alternate, Chief of Staff, Office of the Director of Finance  
Ron Stagliano, Vice-Chair, Trustee  
Pedro Rodriguez, Director of Human Resources  
Brian Abernathy, Alternate, First Deputy Managing Director  
Francois Dutchie, Chief Deputy City Solicitor  
Alan Butkovitz, Esquire, City Controller  
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  
Marsha Greene-Jones, Deputy Director of Human Resources  
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:

Adam Coleman, Esquire, Assistant City Solicitor  
Ellen Berkowitz, Esquire, Senior Attorney  
Sharolyn L. Murphy, Esquire, Senior Attorney  
Robert O'Donnell, O'Donnell Associates  
Lavonia Jenkins, Administrative Technician  
Teresa Devine, Administrative Officer  
Brian Wrubel, Marquette  
Kweku Obed, Marquette  
David Smith, Marquette  
Jesus Jimenez, Marquette  
Matthew Coyne, Torrey Cove  
Emanuel Mahand, Nationwide  
Bina Kumar, Nationwide  
William Greene, Loop Capital  
Pam McCue, Finance Investment News  
Braynard B. Brown, Rockefeller & Co.

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INVESTMENT COMMITTEE MEETING  
December 7th, 2017**

**Agenda Item #1 – Approval of the Investment Committee Minutes of October 26, 2017**

**Mr. Dubow requested approval of the Minutes for October 26, 2017. Mr. Rodriguez made the motion. Mr. Stagliano seconded. The motion passed.**

**Agenda Item #2 – Capital Dynamics Restructuring Proposal Recommendation**

Mr. DiFusco provided a brief overview of the Pension Fund's investment with Capital Dynamics. Mr. DiFusco explained that Staff and Torrey Cove were proposing a restructuring of the investment, specifically as it related to the co-investment vehicle, to make it more suitable and to target new deals with less risk and no fee or carry. The current structure allowed Staff veto rights over the co-investment vehicle, and Staff has vetoed 9 proposals to date and only approved 2. Torrey Cove, Staff and Capital Dynamics are looking to eliminate the veto right altogether. This would be done for several reasons, and the proposed amendment would only allow new deals on a no fee and no carry basis. Staff recommended the Board restructure the account with Capital Dynamics as described in the memos.

Mr. Dubow asked if there would be a difference in the type of investments made. Mr. DiFusco explained that any investments in the co-investment vehicle would represent deals invested in the main fund.

**Mr. Dubow requested a motion. Mr. Stagliano made a motion to accept staff recommendation as proposed. Mr. Rodriguez seconded the motion. The motion passed.**

**Agenda Item #3 – Real Estate Portfolio Overview**

Mr. Obed reported that the allocation to core open-end real estate increased. Fees were reduced by adding open-ended managers. This also eliminated deviation from both standard error and tracking error. Mr. Obed explained that the real estate allocation should focus on income growth versus appreciation. This shifting focus will lead to a slight moderation in returns. Mr. Obed hypothesized a 7% - 8% return on real estate moving forward. Mr. Obed discussed the stable-like returns of real estate over time, and approximated a yield of 4.5% - 5%, which is greater than an expected 2.3% return for core bonds. Mr. Obed reviewed the additional allocation of \$125M to UBS Real Estate. Mr. Obed referred to this allocation as a level of defense in the overall portfolio.

When discussing sector exposure in real estate, Mr. Obed noted that the real estate allocation is overweight to multifamily units. This subsector of real estate has seen high valuations. Mr. Obed further explained that the goal is to decrease the 18% overweight exposure to multifamily by investing subsequent real estate allocation to core open-end funds. Subsequent allocations to real estate would shift away from the multifamily exposure and more to the industrial sub asset allocation.

Mr. Bielli questioned what percentage of the core-open end real estate fund would be allocated to office space. Mr. Obed referenced the real estate benchmark weighting. When comparing allocations

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December 7th, 2017**

to UBS and Beacon, Mr. Obed noted that UBS distinguished itself for attracting the best tenants, and most favorable terms.

When discussing core open-end real estate, Mr. Obed mentioned its transparency, low cost and more frequent valuations, liquidity and anchor-like effect on a portfolio. Mr. Obed noted that future discussions about ramp up allocations in Clarion and UBS are under consideration.

Mr. Bielli questioned if core open-end real estate would hit on all subsectors of real estate. More specifically, Mr. Bielli questioned any allocation to closed-end real estate investments, if success with core open-end funds is expected. The core open-end funds would provide sufficient exposure and better risk-adjusted returns than closed-end real estate, since core open-end funds seek to mirror the real estate benchmark.

Mr. Rodriguez asked if there was an update on climate change impacts on real estate. Mr. Obed answered that there wasn't specific research completed. However, Mr. Obed acknowledged that core open-end real estate fund managers avoid disaster prone areas when making new investments. Mr. Obed further explained that core-open end managers construct new properties mindful of carbon footprint, energy efficiency and disaster resiliency.

Mr. Rodriguez asked about the specific geographic breakdown of the industrial sector. Mr. Obed answered that investments would be in U.S. major metropolitan areas, and industrial sub asset allocation includes manufacturing facilities and major companies as well.

Mr. Stitt asked if the consultants considered the potential impact of pending tax law changes to the expected real estate returns. Mr. Obed explained that UBTI is not a material concern for the portfolio, but with ongoing changes to the bill, final conclusions and calculations are still pending. Mr. Bielli noted that NCPERS is lobbying on behalf of the Pension Fund and other major pension funds to remove UBIT from any final bill.

**Agenda Item #4 – Directed Brokerage Report**

Mr. DiFusco presented the reports.

Mr. Difusco complimented Ms. Bair, Mr. Cousounis and Mr. Buckley for their assistance in helping the fund to save approximately \$16,000 in a recent transaction involving the receipt and liquidation of stocks from a private equity deal.

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

**Agenda Item #5 – Flash Report for the Period ending October 2017**

Mr. DiFusco presented the reports.

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

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
December 7th, 2017**

**Agenda Item #6 – Investment Staff's Report**

Mr. DiFusco presented the reports.

Mr. DiFusco thanked Ms. Stukes-Baylor for helping to arrange an invitation to the National Association of Security Professionals (NASP) conference at which Mr. DiFusco & Ms. Cherry attended and presented. The Board received many positive comments from attendees.

Mr. DiFusco stated that Staff members would be participating in a financial literacy program for high school girls (in conjunction with a local investment manager) in March 2018. The long-term goal of the program is to encourage more young women to pursue careers in finance. Assuming all goes well, Staff will participate regularly.

Mr. DiFusco stated that the Board's CII membership is up for renewal, and the fee is \$3,500. Absent any concerns from the Trustees, the invoice would be paid.

The upcoming Board meetings are January 25, 2018, February 22, 2018 and March 22, 2018.

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

Mr. Wrubel, President of Marquette Associates, thanked the Board for the opportunity to partner with the City of Philadelphia Board of Pensions and Retirement. Mr. Dubow and Mr. Stagliano both recognized the fine work by Marquette Associates and expressed appreciation for their service to the Board.

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

**At 11:10 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Dutchie made the motion. Ms. Stukes-Baylor seconded. The motion passed.**

**At 11:10 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. Ms. Pankey seconded. The motion passed.**

**At 11:10 a.m., Mr. Dubow requested a motion to adjourn the City of Philadelphia Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Ms. Pankey seconded. The motion passed.**

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December 7th, 2017**

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