

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
June 3, 2014**

MEETING MINUTES

There being a quorum, Paula Weiss, Esquire, Alternate Board Chair, called the Investment Committee Meeting to order at 10:35 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16th Floor.

Present:

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 G. Stukes-Baylor, Employee Trustee
Andrew P. Thomas, Employee Trustee
Veronica M. Pankey, Employee Trustee
Folasade Olanipekun-Lewis, City Council Designee

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
Katherine Janoski, Esquire, Assistant City Solicitor
Mark Murphy, Board of Pensions
Charles Jones, Executive Director, Sinking Fund Commission
Jackie Dunn, Finance
Daina Stanford, Administrative Assistant
Carmen Heyward, Clerk Stenographer II
Donna Darby, Clerk Stenographer II
Mark Johnson, Cliffwater
Will Greene, Loop Capital

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Agenda Item #1 – Approval of Minutes of March 27, 2014 & April 24, 2014

Ms. Weiss said the first order of business was approval of the Minutes of March 27, 2014 and April 24, 2014.

Minutes of March 27, 2014

Mr. Albert made a motion to approve the Minutes of March 27, 2014 and Mr. Thomas seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.

Minutes of April 24, 2014

Mr. Albert made a motion to approve the Minutes of April 24, 2014 and Mr. Thomas seconded it. All were in favor with the exception of one abstention by Mr. Butkovitz. There were no oppositions. The motion passed.

**Agenda Item #2 – Opportunity Fund – Domestic Equity and Fixed Income
Manager Search Recommendations**

Ms. Cherry reported the Board previously used two opportunity fund consultants to manage the Opportunity Fund Portfolio. Last August the Investment Committee voted to take the process in house.

Staff, in conjunction with Cliffwater, have the responsibility for sourcing new managers in the diverse, emerging and local categories as well as taking on oversight for the ongoing monitoring & due diligence for these managers. The rationale for pursuing this approach was greater control for the board in making decisions in a timely manner and the opportunity for lower fees.

Following the decision to bring the process in house, staff planned to issue three RFP's: domestic equity, fixed income and international equity.

Prior to issuing these RFP's, staff met with each of the twenty-one managers in the [then existing] portfolio. The meetings began with the [then existing] managers on September 10, 2013 and concluded September 23, 2013.

After issuing the RFPs, Staff received one hundred sixty-three domestic equity submissions from one hundred thirty-five different firms; one hundred thirty- four strategies met the required criteria.

Staff received forty fixed income submissions from twenty-eight different firms; thirty-four of those strategies met the required criteria.

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Staff's recommendations for the Diverse, Emerging, Local Domestic Equity and Fixed Income allocations are Brandywine Large Cap, Lyrical Large Cap, Hahn Mid Cap, Apex SMID, Herndon Mid Cap, GW Small Cap, Longfellow Core Fixed Income, GW Fixed Income, and Logan Circle Core Plus. APEX SMID, Herndon Mid Cap, GW Small Cap, and GW Fixed Income are considered graduated from the current opportunity fund.

Manager interviews for finalists were also conducted by a board subcommittee.

Of the managers that are being recommended, six are considered diversity managers. There is one emerging and the other two are local.

To date, the total allocations to the managers listed above are about \$290 million with additional allocations to come once the international equity manager search process is complete. The total Opportunity Fund as it had been constituted, at its peak, was \$320 million. Staff anticipates assets exceeding that total being allocated to diversity, local and emerging managers once the current process is complete.

Ms. Cherry stated that staff would like to add Cheswold Lane to the list of managers that are being recommended today. Cheswold Lane is an international equity manager currently in the PFM portfolio. The manager has offered a fee proposal called The Founders Capital Program to the first \$100 million into the strategy for institutional direct mandates. Staff wanted to take advantage of the opportunity where the minimum initial investment is \$50 million at 40 bps which is a significant savings from the initial proposal that was offered.

Ms. Pankey wanted to know why Herndon Mid Cap is being considered. She also inquired about their performance.

Ms. Cherry replied Herndon is being considered for their mid cap strategy. Staff liked Herndon, their philosophy and process. Staff spoke to the portfolio manager for the mid cap team and the performance was attractive. Ms. Cherry asked Ms. Pankey to view page 16 of the Domestic Equity Report. The performance and peer ranking score strategy showed top quartile performance across the board.

Ms. Weiss thanked staff for the extensive work they did on all the searches and the in depth information they provided to the subcommittee. She also thanked Ms. Stukes-Baylor and Mr. Stagliano for the time they put in to review managers. Ms. Weiss said the subcommittee members saw some impressive managers in the presentations. We were happy to offer a graduation opportunity for some of the firms that have been in our fund-of-funds for so long.

Ms. Stukes-Baylor thanked Staff for a job well done. She thanked Staff for reducing the cost from Cheswold Lane. She informed Ms. Pankey that they viewed Herndon Mid

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Cap and felt they were a good manager in the Mid-Cap space. Ms. Stukes-Baylor said that Herndon would not be managing international or large cap assets for the Board.

Mr. Leonard wanted to know if the Board was to approve the recommendations what would the estimated annual savings fee savings be versus when there were managers of managers. Mr. Bielli also inquired about the savings based on the current market value.

Ms. Cherry answered so far we are seeing significant savings. Mr. DiFusco added it will likely be in excess of \$500,000 per year.

Ms. Weiss added that Staff did a good job of negotiating and these fees are significantly less even in terms of what was looked at originally by the Subcommittee.

Mr. Bielli commented that the work done by the Subcommittee and the research done by Cliffwater and Staff was good.

Mr. DiFusco added following the July meeting we will continue the process and build out a bench of other managers.

Mr. Bielli informed everyone to keep in mind that this is only a replacement for the equity and fixed income portion that was the formal Opportunity Fund. He said there are going to be additional investments in private equity, real estate and hedge funds. When we talk about the amount of assets that used to be in the Opportunity Fund it should grow to be substantially higher, not only in equity and fixed income but also in other asset classes.

Ms. Weiss requested a motion to accept hiring these managers at these allocations. Mr. Albert made the motion and Mr. Thomas seconded it. There were no oppositions or abstentions. The motion passed.

Agenda Item #3 – Flash Report for the Period Ended April 2014

Mr. Johnson said staff's level of effort and professionalism carried out in terms of the Opportunity Fund Search was top notch.

Mr. Johnson reported the portfolio was up 47 basis points for the month of April, slightly below the benchmark for the Fund.

Mr. Johnson reviewed individual asset classes and managers, noting both the positive and negative contributors.

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Ms. Stukes asked Mr. Handa about the performance of Mackay Shields and if they were the only manager that managed high yield assets.

Mr. Handa replied no, they are not the only manager in this space and indicated that he expected performance to improve.

Mr. Johnson added that for high yield managers in general - the better quality managers tend to underperform in bull markets.

Ms. Stukes inquired about the JP Morgan EM Bond Fund (ETF).

Mr. Johnson answered it is hard for diversified managers to take allocations in small issues and therefore they will tend to underperform as those smaller issues usually outperform in a rising market.

Agenda Item #4 – Emerald Advisors, Inc.

Mr. Handa stated last year Emerald Advisors was our best performing manager. They were up 49.5 %. They invest primarily in the Russell 2000, and the Russell 2000 was up 45% last year. This year the Russell 2000 has not done well and is down 3.5%. Emerald was down 8.45% in one month.

Mr. Leonard asked Mr. Handa if staff believed the sizing of the position was sufficiently prudent action at this time.

Mr. Handa replied we believe so.

Mr. Handa indicated that across the Russell 2000, we had been taking chips off the table. Additionally, \$100 million was taken out of the S & P 500 in April, and another \$100 million or so was taken out in May. The move is much more in line with our existing asset allocation.

Agenda Item #5 – Flash Reports for the Opportunity Fund Managers for the Period ended April 2014

Mr. Handa said the Opportunity Fund was previously discussed and asked if there were any specific questions about managers.

Agenda Item #6 – Cupps Capital Management

Mr. Handa said Cupps was a part of the Opportunity Fund. The Board gave Staff some

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autonomy during this transition period. Cupps is invested primarily in a lot of the more momentum oriented securities and their performance over the last few months has been extremely volatile. The results were disappointing. Staff pulled \$6,623,139 from Cupps on April 25. Mr. Handa stated the \$6,623,139 was used to pay benefits.

Agenda Item #7 - First Quarter 2014 Directed Commissions Report

Mr. Handa asked if there were any questions.

Agenda Item #8 - Chief Investment Officer's Report

Mr. Handa reported for security lending income, we are a little over a million dollars for the year.

Quality D was initially down over \$2 million a year and a half ago and is now only down by \$400,000, a significant improvement.

There was a drop in the percentage for the diversity managers. The drop was 26% to 23.6%. The reason was because one of our managers, Causeway, was a woman owned fund, and their performance has been exceptional, however, in order to retain her staff, she issued equity to them diluting her ownership in Causeway. She wanted to keep them and she believed the best way to do that was to give them equity in the firm. This is the reason for the drop.

The Independence Fund was up 1.3% in May.

Mr. Handa said The City of Philadelphia is being nominated by Institutional Investor for "Small Public Plan of the Year." Mr. Handa stated they can take three to four people to the awards ceremony.

Ms. Weiss requested a motion to approve for staff and Board members who wish to attend the event. Mr. Albert made the motion and Mr. Thomas seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.

Mr. Handa informed everyone the next Board meeting will be June 26, 2014.

Mr. Bielli noted Ken Kent will be at the June 26 meeting to speak about the experience study. Mr. Bielli said Mr. Stagliano was undergoing a medical procedure tomorrow and asked that everyone keep him in their thoughts and prayers.

Ms. Weiss asked if there was any other announcement.

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Mr. Handa announced a new member, Kristyn Bair, joined Investment staff.

At 11:23 p.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion and Mr. Thomas seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.

At 11:24 p.m., Ms. Weiss 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. Albert made the motion and Ms. Pankey seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.

Ms. Weiss asked if there was any other business for the Board of Pensions and Retirement. There was none.

At 11:25 p.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement meeting. Mr. Albert made the motion and Mr. Thomas seconded it. All were in favor. There were no oppositions or abstentions. The motion passed.

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

Paula Weiss, Esquire
Alternate Board Chair