

**THE BOARD OF PENSIONS AND RETIREMENT  
INVESTMENT COMMITTEE MEETING  
September 26, 2019**

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 10:09 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 Rhyhart, City Controller  
Marcel Pratt, City Solicitor  
Christopher Rupe, Alternate, Chief of Staff, Office of the Managing Director  
Marsha Greene-Jones, Alternate, Deputy Director of Human Resources  
Brian P. Coughlin, Trustee  
Carol Stukes-Baylor, Trustee  
Veronica M. Pankey, 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  
James Cousounis, Chief Compliance Officer  
Shamika Taliaferro, Deputy Director of Pensions  
William Rubin, Audit Manager  
Dominique A. Cherry, Head of Private Markets  
Tyrone Jordan, Senior Investment Officer  
Kristyn Bair, Investment Officer II  
Abdel-Aziz Ibrahim, Investment Officer

Also Attending:

Kellan White, First Deputy Controller  
Francois Dutchie, Chief Deputy City Solicitor  
Adam Coleman, Assistant City Solicitor  
Ellen Berkowitz, Esquire, Senior Attorney  
Sean McGrath, Law Department  
Sharolyn L. Murphy, Esquire, Senior Attorney  
Lavonia Jenkins, Administrative Assistant  
Neshea Bumpus, Clerk Typist I  
Brad Nyce, Nationwide  
Jeffrey Francis, Nationwide  
Bina Kumar, Nationwide  
Kweku Obed, Marquette Associates  
David Smith, Marquette Associates  
Gregory Leonberger, Marquette Associates  
Matthew Coyne, Torrey Cove  
David Fann, Torrey Cove  
Pam McCue, Financial Investment News  
Chris Rilling, Philly Divestment Coalition  
Anu Patel, Cheiron  
Brett Warren, Cheiron  
Jean Haskell, Granny Peace Brigade Philadelphia  
Helen Evelev, Granny Peace Brigade Philadelphia

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**Agenda Item #1 – Approval of the Investment Committee Minutes of August 22, 2019**

**Mr. Dubow requested approval of the minutes of the Investment Committee meeting for August 22, 2019. Ms. Stukes-Baylor made the motion. Mr. Pratt seconded. The motion passed unanimously.**

**Agenda Item #2 – Diversity Brokerage Q2 2019 Update**

Mr. DiFusco presented the update. He stated the Fund's equity managers directed 33% of their trades to Local, Minority, or Women-owned brokerage firms during Q2 2019 and 46% YTD. For Fixed Income, the percentage of trades with Local/Minority/Women Brokers is 29.0% for the 2<sup>nd</sup> quarter and 29.5% YTD.

Mr. DiFusco noted that Staff is working with the transition manager Vertas on further report information. He stated that Staff has scheduled a meeting with Logan Circle (MetLife) to discuss their brokerage use. He added that their usage had improved and the sale to MetLife should also help.

Mr. Dubow asked if this was a difficult quarter for Lord Abbett. Mr. DiFusco explained that 2<sup>nd</sup> quarter was more challenging as compared to the first quarter. Mr. DiFusco added that Staff did not have any actionable concerns at this time, considering Lord Abbett's overall YTD percentages.

Ms. Pankey asked if Logan Circle (MetLife) anticipated any staffing changes. Mr. DiFusco stated that they have not discussed or disclosed any. He understood that their team has 4-5 year contracts and those managing the fund will still do so locally.

Ms. Stukes-Baylor asked when the transition occurred. Mr. DiFusco offered to email the exact date but stated his belief that it occurred sometime within the past year. Ms. Stukes-Baylor asked will Logan Circle change their name? Mr. DiFusco stated that he believes they will keep their subsidiary name but will verify.

**Agenda Item #3 – Asset Allocation Review and Recommendation(s)**

Mr. Obed introduced Director of Research at Marquette, Gregory Leonberger.

Mr. Obed presented the Marquette Asset Allocation Review and Recommendation, with Mr. DiFusco providing Staff observations and commentary. In summary, Mr. Obed identified the following primary considerations as the rationale: increase the likelihood of hitting the return target over the long-term (defined as 10 years); build on the strong performance resulting from

return from 7.75% to 7.60% since the last study in 2016 and the scheduled decrease to 7.55% at the start of the next FY; to reemphasize that risk cannot be avoided when attempting to meet the return target; and to acknowledge and respond to certain macro-observations and market environment changes since 2016.

Mr. Obed noted Marquette's recommendation for modest changes to the current allocation: to minimize potential surprises in performance across the variety of market conditions; and provide further diversification in key asset classes and sub asset classes, for example within domestic and

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international equity to include an allocation for Global Low Volatility exposure. Mr. Obed explained the key features of the global low volatility equity class.

After extensive questions, discussion, and requests for data by the Trustees, Ms. Rhynhart and Ms. Stukes-Baylor suggested that Marquette provide additional details and information, including return and fee information and the pros and cons of the various asset allocation/portfolio models. Mr. Obed agreed. The Board deferred further discussion of the asset allocation study and recommendations until the next meeting after receipt of the requested additional information.

**Agenda Item #4 – Flash Report for The Period Ending August 2019**

Mr. DiFusco reported the returns as of August 31, 2019. Mr. DiFusco stated the Fund performed just below the Total Fund Policy Benchmark (“Benchmark”) (-1.1% vs -1.2%) for August 2019 and delivered a 2<sup>nd</sup> quarter return of +2.6% (vs. Benchmark of + 2.7%). For YTD, the Fund was up nearly 10%.

Mr. DiFusco described the asset classes that added value or detracted from the Benchmark. Through the close of business on September 24, 2019, it was estimated that the Fund was up +1.35% for the month, up 40 basis points fiscal YTD, and up 11.5% YTD.

Mr. Obed and Mr. DiFusco reported on performance of Causeway and Elizabeth Park. Mr. DiFusco noted that although Elizabeth Park had a rough August, the manager had acted consistent with their strategy and process and had performed well for September and YTD. He added that he was not troubled by one month of underperformance.

Mr. Obed stated that although Causeway had underperformed, they had not deviated from the strategy or process for which they were hired. Ms. Rhynhart noted the difficulty in retaining a manager that consistently does not meet their index year after year; and asked what would need to happen for Marquette to recommend termination. Mr. Smith explained that their performance should be compared to a developed market benchmark and that value stocks should do well over time if markets revert to the mean. They would consider the context of any decision in the overall portfolio and what would replace this manager if terminated.

Mr. Dubow asked if there is a better way to get value into the portfolio than a manager who has consistently lagged in performance. Mr. Obed stated not in this environment.

Ms. Stukes-Baylor asked Mr. DiFusco for his assessment. Mr. DiFusco stated he would be cautious in terminating Causeway. Mr. DiFusco further stated the research suggests that if you fire an active manager and immediately hire a new active manager, the new active manager is not likely to put the investor in a better position 10 years later than if you had stayed with your original choice of manager. He added that if you believe in active management in this space, you should consider sticking with Causeway given the cited research. If, however, you’d prefer passive management, Staff would be supportive of that decision.

Ms. Rhynhart questioned Brandywine’s performance. Mr. DiFusco stated Staff and Marquette still had confidence in this manager and referenced their long-term track record. Mr. DiFusco further noted that the manager had outperformed the benchmark, net of fees, in all but two (2) calendar years, multiple times by significant margins.

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

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

Mr. DiFusco presented the reports. Mr. Stitt questioned the reduction in total managers from 95 to 80. Mr. DiFusco noted that reduction simply reflected an updating of the reporting and removal of any dormant managers.

The upcoming Board meetings are November 14, 2019 & December 5, 2019.

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

Mr. Dubow asked if there was any new or old business. Ms. Stukes-Baylor commented on the problems encountered with the One Philly transition and inquired whether the City should/could return to the legacy system or run both systems parallel to each other. Mr. Dubow responded that the City could not: the legacy system could no longer support the data, and a retransfer "back" of the data would create its own issues. Ms. Stukes-Baylor inquired of the Controller whether her office was examining the costs involved. Ms. Rhyhart replied that her office was presently performing an audit of the One Philly system, and she could not comment further until she had completed her audit.

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

**At 11:45 a.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Ms. Stukes-Baylor made the motion. Ms. Greene-Jones seconded. The motion passed unanimously.**

**At 11:45 a.m, Mr. Dubow convened the Board of Pensions and Retirement meeting and the Board unanimously affirmed the actions taken at the Deferred Compensation Plan Meeting and at the Investment Committee Meeting.**

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