

**THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
JANUARY 5, 2012**

MEETING MINUTES

There being a quorum, Rob Dubow, Finance Director and Board Chairman, opened the Investment Committee Meeting at 9:35 a.m., 16th Floor Board Conference Room, Two Penn Center Plaza.

Present:

Rob Dubow, Finance Director
Paula Weiss, Esquire, Deputy Finance Director (Alternate)
Alan Butkovitz, Esquire, City Controller
Harvey Rice, Esquire, First Deputy City Controller, (Alternate)
Brian Albert, Deputy Personnel Director (Alternate)
Celia O'Leary, Deputy Director of Human Resources (Alternate)
James Leonard, Esquire, Chief Deputy City Solicitor (Alternate)
Ronald Stagliano, Employee Trustee
John A. Reilly, Employee Trustee
Carol G. Stukes, Employee Trustee
Veronica M. Pankey, Employee Trustee
Anne Kelly-King, City Council Non-Voting Board Member

Executive Director:	Francis X. Bielli, Esquire
Deputy Executive Director:	Mark J. Murphy
Chief Investment Officer:	Sumit Handa, Esquire
Deputy Chief Investment Officer:	Rhonda McNavish
Investment Officer:	John Foulkes, Esquire
Investment Officer:	Brad Woolworth
Investment Associate:	Dominique Cherry
Investment Associate:	Daniel Falkowski

Also Attending:

Robert O'Donnell, Esquire, O'Donnell Associates
Christopher DiFusco, Esquire, Divisional Deputy City Solicitor
Joshua Stein, Esquire, Deputy City Solicitor
Benjamin Hinerfeld, Esquire, Deputy City Solicitor
Tina Byles Williams, FIS
Shalonda Epps, FIS
Steve Novick, Courtland Partners
Ben Blakney, Courtland Partners
Marc Rivitz, Courtland Partners
Ira Lubert, LEM Capital
Jay Eisner, LEM Capital
Herbert Miller, LEM Capital

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Joe Steccato, J.P. Morgan
Bill Rubin, Former Vice Chair and Employee Trustee
Arlene Sawyer, Investment Unit
Donna Darby, Investment Unit
Carmen Heyward, Investment Unit
Will Greene, Loop Capital
Chester Skaziak, Retiree
Max Marine, Visitor

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Agenda Item #1 – Approval of Minutes

Mr. Dubow opened the meeting and requested a motion to approve the Minutes.

Mr. Reilly made a motion to approve the October 27, 2011 Minutes. Mr. Stagliano seconded. The motion passed.

Mr. Reilly made the motion to approve the December 8, 2011, Corrected Minutes. Mr. Stagliano seconded. The motion passed.

Agenda Item #2 – Real Estate – 2nd Quarter 2011 Portfolio Report and 3rd Quarter 2011 Portfolio Update

Mr. Handa said an overview of Real Estate was deferred from the last Board meeting to this meeting. Courtland Partners would be providing the 2nd Quarter Report, followed by Mr. Foulkes' 3rd Quarter fund update.

Mr. Novick informed that the 3rd Quarter numbers would be available next week, and that Courtland would present at the January 26, 2012 Investment Committee Meeting. He reported that as of 2nd Quarter (page 1), 3.4% was invested of the total fund value, at about \$138.0 million, with a 5% allocation target. The net returns through June 30, 2011, had been good. The 3.3% for the 2nd Quarter net return, and for a one-year was 19.4%. Good performance.

The Core portfolio (page 2) did over a 20% return on a one-year basis, and each Quarter and year-to-date had been strong, and that would continue through the 3rd and 4th Quarters of 2011. The returns had flattened out, but performance was good. Value did well, at 19.8% through the one-year to June 30, 2011. The Quarter and year-end-to-date was strong. Opportunistic, at a 13.3%, was a major difference to where the fund was - three years compared to the one-year.

The Fund, (page 3) relative to the index on a one-year basis, compared to the NCREIF plus 200 basis points benchmark, relative to the Courtland Property Index, on a one-year basis was ahead in all measures.

The Fund (page 8) was leveraged for Core, at 27%, Value, 44%, and Opportunistic, 60%. The blended leverage rate was 40%.

Mr. Foulkes provided the September Market Value, June 30, 2011, as the Board requested, at \$149.0 million, including a small amount of cash in the Real Estate portfolio. The fund target was included in the report. He advised that the fund had headroom of \$30.0 million to commit.

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He provided the 3rd Quarter highlights of the fund and updating on Arsenal's funding status, related to their recent residential resort development in Portsmouth, Rhode Island (up the road from Newport). Arsenal tried to negotiate with the senior lender, Bank of America, for several years, with a lot of turnover with the bank, no one at the Bank paid attention to it. In the last two Quarters, they started negotiation with somebody who was serious about allowing Arsenal to buy the senior note at a discount. It was consummated during the week of November 19, 2011, and will make a difference as to whether or not it [the Board's investment in Arsenal is successful.

Mr. Novick informed that if the project worked, the Board could receive all of the capital back, and if not, they would get between 50 to 65 cents on the dollar. The expected time frame was for 2012.

Agenda Item #3 – Real Estate – LEM Real Estate High-Yield Debt Fund III, L.P.

Mr. Novick said that Courtland, with Staff, was recommending that the Board invest capital into LEM Real Estate High-Yield Debt Fund III, L.P. Courtland provided an overview.

Staff's recommendation was to make a capital commitment of \$15 million to LEM Real Estate High-Yield Debt Fund III, L.P. The Courtland Partners, Ltd., recommended a capital commitment of \$10 million.

Mr. Novick said that the Board could make it \$15 million, subject to a formal review by Courtland. He said that the main reasons for Courtland's comfort with Fund III were the strategy, the capital stack and the structure of the organization. Their report talked about where they stood on a relative basis in the universe, and concluded, even if there was risk, it was Courtland's thought that they were well-positioned to move forward.

Messrs. Lubert, Eisner and Miller talked about LEM's strategy and performance, followed by Board questions and answers.

Mr. Foulkes advised that if the Board made an investment, Staff would be invited to sit on the advisory board. Mr. Handa added that he requested it.

Mr. Dubow requested a motion to approve. **Mr. Stagliano made a motion for \$15 million. Mr. Butkovitz seconded. Ms. Pankey abstained. The motion passed.**

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Agenda Item #4 – Flash Report for the Period Ending November 30, 2011

Ms. Byles-Williams provided a December Market Commentary. She noted a couple of reversals during the year, looking at the Russell 3000 Value over Growth, Growth outperformed for the year, but looking at the last Quarter, Value over took that.

The fund's current allocation versus its target allocation for Domestic Equity, was showing the relative appreciation of Equities. For the Non-U.S., the fund was underweight relative to the target allocation, significantly underweight in Fixed Income, okay in Real Estate, okay in Private Equity, a little below in Hedge Funds and Real Assets; and, the fund was significantly above in cash.

For details in November, inception-to-date, the total fund was at 7.84% annualized, and gross-of-fees and slightly below its Composite Index. Net of fees, the Fund returned 7.49% annualized since inception, 50 basis points below its Composite Index. Ms. Epps reported for the month of November that the fund outperformed on a net and gross-of-fee basis by, approximately, 30 basis points. On an absolute basis, the Mid Cap and MLP managers added the most value. On a relative basis, the Non-U.S. Equity managers, as a whole, added value. Emerging markets equity managers were the highest performers, relative to their benchmark. Fixed Income was the only asset class that underperformed its index during the period, due to performance of the Global Fixed manager, Brandywine and the high-yield managers slipped. The JP Morgan EM Bond Fund ETF underperformed its index. They were the more risky asset classes which had rough performance during the month.

She updated that Barings was funded during November. McKinley was terminated and replaced with the Non-U.S. Equity MSCI EAFE plus Canada manager. The Developed segment of the Non-U.S. portfolio was complete, and all of the managers were there as of November 30, 2011. Paulson was terminated for the Hedge Fund allocation during the month of November.

Agenda Item #5- Flash Report for the Opportunity Fund Managers for the Period November 30, 2011

Ms. McNavish reported split performance for the quarter by the opportunity fund consultants. PFM underperformed by 79 basis points and FIS outperformed by 79 basis points.

The primary underperformance for PFM was attributed to Herndon, Palisades and Garcia Hamilton.

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Mr. Handa recalled from the last Board meeting, when PFM said that they would invest more with Apex, that there was discussion. He informed that PFM sent him a memorandum in December to advise that PFM would not go forward with Apex, and that they would find another manager to fund by the end of January.

Agenda Item #6 – Chief Investment Officer's Report

Mr. Woolworth reported for November that securities lending generated \$137,543. Year-to-date securities lending generated approximately \$1.4 million and inception-to-date, securities lending generated about \$30.8 million, taking into account quality D securities lending collateral current valuations.

Total diversity manager investments represented 24.61% of the total fund assets. Geneva Capital graduated out of the opportunity fund and moved into the portfolio. Lombardia will be transferring out and replaced by O'Shaughnessy. Mr. Handa said that the Real Assets manager, Tortoise, will be funded with \$20 million once the contract is complete and that firm is minority owned.

Mr. Handa said that Staff would be meeting with five of the seven respondents to the General Consultant search. and that Staff expected to have a report ready for the Board to review at the January 26, 2012 Board Meeting, so that in February, the Board could decide on their choice of general consultant going forward.

Mr. Handa informed that Staff was meeting with 30 managers in January, including some of the fund's existing managers.

Mr. Handa informed that the tactical fund guidelines were complete and Staff was talking to three different risk managers that would potentially act as an interim risk manager until the new General Consultant came on board. The new General Consultant will also act in that role. Mr. Handa stated that Staff anticipated having the Board approve the guidelines by January 26, 2012, and that Staff can start investing by February.

He requested volunteers for the Small Cap Value Subcommittee, and Mr. Albert, Mr. Stagliano and Ms. Stukes volunteered.

Ms. Pankey asked, from Board discussion at the last two meetings, if the current consultant was engaged in the conversation of being part of the interview process for the transition to the new general consultant and extending the current consultant for, about, three months. She asked if the Board members would be invited to participate in

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the interview meetings. Mr. Stagliano said, yes and that he had received an email with the schedule.

Mr. Handa said, as for the General Consultant search and FIS, in terms of them participating with the interview process, there was a conflict of interest and ethical issues, according to the Law Department. Mr. Handa added that FIS's participation in the General Consultant search was not raised during previous Board meetings. It was brought up, after the meeting.

Ms. Pankey said given that FIS's participation was not raised at the last Board meeting, she was entering it as a question. Ms. Weiss noted that it was asked and said that it would be answered.

Mr. Handa said that the calendars were in the Board binders and that there was another Deferred Compensation Plan Committee and Investment Committee Meeting January 26, 2012.

At 11:30 a.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Mr. Stagliano seconded. The motion passed.

At 11:30 a.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. Ms. Stukes seconded. The motion passed.

At 11:30 a.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Albert made the motion. Mr. Stagliano seconded. The motion passed.

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

Paula Weiss, Esquire
Alternate Board Chairperson