THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
JANUARY 24, 2013

MEETING MINUTES

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 9:45 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
Harvey Rice, Esquire, Alternate, First Deputy City Controller
Shelley Smith, Esquire, City Solicitor
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor
Brian Albert, Alternate, Deputy Human Resources Director
Celia O'Leary, Alternate, Deputy Director of Human Resources
Carol G. Stukes-Baylor, Employee Trustee
Ronald Stagliano, Employee Trustee
Andrew P. Thomas, Employee Trustee
Veronica M. Pankey, Employee Trustee
Folasade Olanipekun-Lewis, City Council Designee

Francis X. Bielli, Esquire, Executive Director
Mark J. Murphy, Deputy Executive Director
Brad Woolworth, Deputy Chief Investment Officer
John Foulkes, Esquire, Investment Officer
Dominique A. Cherry, Investment Officer
Daniel Falkowski, Investment Officer

Also Attending:

Christopher DiFusco, Esquire, Divisional Deputy City Solicitor
Katherine Mastrobuoni, Esquire, Assistant City Solicitor
Ellen Berkowitz, Esquire, Deputy City Solicitor
Amy Hummler, Esquire, Intern, City Solicitor's Office
Carmen Heyward, Investment Unit
Donna Darby, Investment Unit
Robert O'Donnell, Esquire, O'Donnell Associates
Daniel Stern, Cliffwater
Brad Atkins, Franklin Park
Raymond Jackson, Franklin Park
Gregory Kinczewski, Marco Consulting Group

Maureen O'Brien, Marco Consulting Group
Fran Burns, PICA
Will Green, Loop Capital
Michael Teiper, CBS-Channel 3
Steve Tawa, KYW, News Radio, 1060
Sean Walsh, The Philadelphia Daily News
Maia Jachimowicz, Mayor's Office
Bob Warren
Pam McCue, Finance
Maceon Davis, Quoin Capital

<u>Agenda Item #1 – Approval of Minutes for December 20, 2012 and November 29, 2012</u>

Mr. Dubow opened the meeting and requested approval of the Minutes for December 20, 2012, and November 29, 2012. Mr. Stagliano made the motion. Mr. Rice seconded. The motion passed.

Mr. Dubow called for Executive Session at 9:45 a.m., and it concluded at 9:55 a.m. The meetings resumed at 10:00 a.m., after Executive Session. Executive Session was about litigation matters.

<u>Agenda Item #2 – Philadelphia Board of Pensions and Retirement Resolution Sandy Hook Principles</u>

Ms. Smith introduced the resolution of the Sandy Hook Principles that were intended to guide the Board in divesting of holdings in businesses that received 50% revenue for manufacturing of guns and ammunition, distribution and retail sales. The process set forth in the Resolution was modeled after the Board's Sudan Resolution.

Within 90 days of adoption, the Board would identify companies impacted by the Principles, place them on a list, and give them 90 days to agree to abide by the Principles. If they sign, the Board may remain invested and place them on a compliant company list. If they choose not to sign, the company would go on a non-compliant company list, and the Board would commence the divestment process that would occur over a nine to 15-month period. The Board would place this on the website with the list updated quarterly. The Law Department, along with related City departments will help to incorporate the Principles with the Board, so they will be applied in the future. The Sandy Hook Principles apply to the Defined Benefit Pension Fund, but not the Deferred Compensation Plan.

Mr. Dubow asked Ms. Smith to talk about what steps the Board was being asked to take. Ms. Smith outlined the Public and Private divestment provisions of the resolution and read aloud each of the eight Principles.

Mr. Dubow asked Investment Staff to give an indication of the impact of the Principles on the overall Fund. Mr. Woolworth discussed some of the existing positions, both publicly and privately held by the Fund that would be impacted by the Principles. Mr.

Woolworth indicated that the total market value of the identified positions in the Fund represented approximately 0.37% of total Plan assets.

Mr. Dubow requested a motion. Ms. Stukes-Baylor made the motion. Mr. Albert seconded. The motion passed.

Agenda Item #3 – Passive Manager Search and Subcommittee Recommendation

Mr. Falkowski said that on May 11, 2012, Staff issued a search for passive managers due to the expiration of the contracts with Rhumbline and Northern Trust. On September 27, 2011, the Board approved retaining Rhumbline and Northern Trust.

Staff was looking to reissue the search for passive managers, because there were additional mandates over the last 12 to 18 months that the Board was considering. Rather than doing an RFP for each mandate, the staff is recommending the Board identify a roster of qualified managers so when a need arises a new RFP process will not be necessary each time. . This should create flexibility as new mandates arise.

Mr. Woolworth added that the intention was to have a position available, so that when a manager was terminated, rather than keeping the funds with that manager pending a search for a new manager, the funds could put be put into a passive manager index.

Mr. Falkowski said that the search was posted on November 27, 2012, with a deadline to apply on December 11, 2012. Eight firms responded, including Rhumbline and Northern Trust. Six firms met the required criteria for the search.

Mr. Falkowski said that at the Passive Manager Subcommittee meeting, the Subcommittee voted to recommend retaining Rhumbline and Northern Trust and to add Blackrock. Mr. Falkowski added that Staff has been very satisfied with Rhumbline and Northern Trust, who had each been responsive to Staff's requests. Additionally, Blackrock was the largest passive manager with over $3 trillion in assets under management, and has significant capacity in creating customized index products. Northern Trust, also, has that capacity as well.

Mr. Woolworth offered Staff's thought that they could add value by being on the roster. He asked for Board approval to retain Rhumbline, Northern Trust and add Blackrock.

Mr. Dubow asked about their fees. Mr. Falkowski said that overall they were reasonable and the fee would vary based on the amount of the assets under management. Mr. Woolworth added that Rhumbline had the best fee.

Mr. Dubow requested a motion. Mr. Stagliano made the motion to approve the subcommittee's recommendation. Mr. Rice seconded. The motion passed.

Ms. Stukes-Baylor asked if the managers did their own trading or used the Board's brokers. Mr. Falkowski said that Northern Trust and Rhumbline participated in the local/minority brokerage program. She asked if they were using the brokers on the list. He said, yes, they were, and next month she would see them on the directed brokerage report.

Mrs. Stukes-Baylor requested that Mr. Falkowski provide an answer as to how many managers or brokers they were using.

Agenda Item #4.A – Proxy Consultant Report

Marco Consulting Group (MCG) reported to the Board. Mr. Kinczewski provided an annual policy update for the Fund's proxy guidelines and review of the shareholder proposals filed in 2012, along with the recommended proposals for 2013.

Ms. O'Brien highlighted the proposals under Proxy Access that allowed shareholders a 3% stake held for three years to nominate their own directors on proxy ballots. Marco Consulting Group voted in support of the proposals.

Advisory Vote on Executive Compensation items as listed (1) Restrict Executive Compensation, (2) Disclose Executive Compensation and (3) Advisory Vote on Executive Compensation Shareholder Proposals were deleted and no longer necessary.

MCG informed that they added an Advisory Vote on Golden Parachute Management Proposal for severance payment given to executives when they change companies, with shareholders having an advisory vote.

Other recommendations:

1. Accumulation Adoption package recommendation, with three different proposals that address having Independence on the Board of Directors, one payroll proposal request, and another that proposed only three Directors on the Board and an Independent chairman and just an independent chair. MCG recommended one explanation be carried to all items for consistency in the customization of issues.

2. Preferred Stock Authorization proposes that 100% of shared stock move to a 50% threshold, in line with the threshold for common stock authorization.

3. Golden Parachutes had the explanation to change the threshold from 2.00 to 2.99. The existing language of the shareholder proposal indicated that if the severance payment was more than a certain amount, MCG would recommend voting against the proposal. The policy currently was at 2.00, but MCG was recommending that it should

be 2.99. This is the standard in the industry, and it was, also, the standard used by the NCPERS proxy voting policy and the standard used for IRS purposes.

4. Other Social and Environmental Proposals -The explanation in the policy now calls for them to abstain from voting, and MCG recommended that in the case where there was insufficient information to make a decision, but where most of a proposal was evolved and there was enough information to make a judgment. MCG recommended that it be moved for vote on a case-by-case basis on these issues.

5. The Non-substantive stylistic and grammar changes on stock ownership by Director, was changed from "executive" instead of "director.

6. Improve Executive Compensation is out of date, because of having the required say on paper. This would be addressed only for shareholder proposals that ask for "binding".

7. The item on Political Spending recommendation could stay, but the explanation was out of date, because it asked for pending legislation, which is no longer pending.

8. The two concluding paragraphs were addressed, and the first policy was a holdover from the proxy voting event. They have a default system, where, if a judgment call was not made, they would call to abstain. MCG does not do abstain. They vote on each item. They might vote to abstain, but it would be a judgment call and not as a default policy. MCG's recommendation was to delete the paragraph.

9. The reference to a consultant group should be changed to Marco Consulting Group.

The Proxy Voting Policy (Clean Version) that was adopted June 4, 2003, before December 14, 2012 amendments followed the updated policy changes in the Board binders.

Mr. Kinczewski provided a review of the 2012 Proxy Season and plans for 2013 recommended shareholder proposals filings.

In 2012 the Board was part of a coalition with 12 other activist institutional investors that were affiliated with three other groups, the National Business Employee Retirement System, Institutional Investors and Center for Political Accountability. The Board had been filing proposals as part of the coordinating effort for five or six years.

In 2012, the Board got more involved with the thrusts of what NCPERS and the Council of Institutional Investors were doing to follow-up on companies that got low "say on pay" votes in 2011. It was the first year of widespread "say on pay" advisory votes for shareholders. There were ten companies that got poor "say on pay" votes in 2011, and they were targeted to receive a package of four performance proposals related to, Independent Board Chair, No Gross up of Excise Taxes, No accelerated vesting of equity awards if there is a change in control, and they had substantial retention of equity reward proposals.

Thirty-five proposals got on the ballot, and were ready to be voted, and of those, 17 were withdrawn. The companies agreed to do what the proposal was seeking and take steps towards doing it. Of the 18 that went to a vote a solid 32 % vote was received.

Two shareholder proposals were withdrawn prior to a formal vote, as part of the “say on pay” engagement. Northern Trust agreed with a shareholder request to have substantial retention of equity holdings. McKesson agreed that they would no longer do gross ups of excise taxes, if there was a change in control.

Kindred Healthcare got 51% of the vote on the independent board chair. Marco was waiting for a company response. A letter was sent to them. They said they were discussing. Marco would monitor that situation, to see what action they would take.

The shareholders got excellent votes on “say on pay”, and, at Abbott Laboratories on no excise tax gross ups, 37%, and at Dean Foods, a 42% vote on no accelerated vesting of equity awards, if there was a change in control. At Express Scripts, where the shareholders had been filing the proposal on political disclosure for the last couple of years, it got a solid 31%.

In 2013, the idea was to follow the same principles and strategies that were done in 2012. There was a new wrinkle on pay engagement, where ten companies were being targeted, because of terrible records of excessive pay for poor performance. A brand new proposal was put together calling for companies, when they presented plans for shareholder approval to specify in their plans what type of performance would generate what type of awards.

Under the Internal Revenue Code, shareholders were supposed to be provided performance goals, but the way it worked in reality, the company did not give anything specific, but gave a long list of 28 factors that they used. The City of Philadelphia, The Kansas City Firefighters and the S&P 500 Index filed the first proposals requiring transparent performance goals, rather than a list of factors, at Citigroup. Discussion began with Citigroup about trying to improve client transparency for the establishment of performance goals of the company in the future. They filed a request with the Securities and Exchange Commission to exclude the proposal from their ballot. It was not an uncommon procedure and was anticipated. They argued that it was confusing and vague and needed clarification. Marco Consulting Group responded to it and expected a ruling from the Securities and Exchange Commission in early February. The proposal was drafted by, about, eight different people and was designed not to be confusing and vague. It was their hope that it would survive that test. Marco knew that it would be subject to a no action request, but another proposal accompanied it, and, it would survive a no action request. They were hopeful that they would not lose.

Mr. Kinczewski updated for 2013 that Abbott Laboratories, where the Board had the good vote in 2012 on the no gross ups on excise taxes. The proposal went in, again, for 2013, and shareholders declared victory. They already said that they would not do it again going forward. The proposal had been withdrawn. Marco refilled, at Dean Foods, the no accelerated vesting of equities awards, and at Express Script, the political contribution exposure, and at Abercomble & Fitch, shareholders put in the safety measure of no accelerated vesting.

Mr. Kinczewski provided Marco's last proposal to the Board which was the idea, as they did last year, to approach the *Wall Street Journal,* probably in early February with a story, because they did a story last year about the beginnings of the 2012 engagement. Marco Consulting could give them the story in 2012 and talk about 2013 with them, and they were waiting on the Securities and Exchange Commission on the Citigroup proposal. They might ask someone from the Fund to comment.

Mr. Woolworth said that the proposals were common sense, and Philadelphia tended to be ahead of the curve on the issues, especially the excise tax. He requested a Board vote. Staff's recommendation was to go into agreement.

Mr. Dubow requested a motion. Mrs. Stukes-Baylor made the motion to approve. Mr. Stagliano seconded. The motion passed.

Agenda Item #5 – 3rd Quarter 2012 Portfolio Report and 4th Quarter Update

Mr. Atkins provided portfolio performance from inception to September 30, 2012. CPBPR earned a since inception net IRR of 9.6% for the Private Markets Portfolio.

Performance versus the benchmarks was 9.6% net IRR compared to the Public Market Equivalent ("PME") S&P 500 of 6%, and the PME S&P 500 plus 500 basis points of 11%, outperforming the PME S&P 500 by 360 basis points, but below the Public Market plus 500 basis points by 140 basis points. Looking at the return relative to partnership vintage year, the portfolio shows that mature investments from 1987 to 2002 were somewhat of a drag on performance, earning 8.5%, but were showing good returns since inception. Returns for 2004 to 2007 vintage year investments were near top quartile and above the median.

Diversification by region was 90% concentrated in the U.S. market and 10% in Western Europe. By age, about 54% of the capital was in more mature seven-year-old plus partnerships, and 40% was still in more recent commitments.

The Board had previously asked Franklin Park to try to negotiate a restructuring of Relativity Capital, an underperforming private equity partnership in the Private Markets portfolio. Mr. Atkins indicated that negotiations were successful and that the partnership was beginning the process of liquidating existing investments and will no longer call capital for new investments. Fees have also been reduced as part of the restructuring.

Mr. Atkins reported that the condition of the credit markets improved, with Buyout firms using lower cost credit to refinance their businesses and return capital back to investors.

Mr. Atkins summarized performance by fund and vintage year, saying that the 2004 vintage partnerships did well, with all positive numbers in that year, and the same for 2005, with good relative return for that year. He highlighted the difficult 2006 Vintage year performance, with one partnership showing a negative performance number.

In regard to other partnerships in the Private Markets portfolio that Franklin Park could take a proactive approach in restructuring, Castile III, was another Emerging Manager in Boston, Massachusetts, focused on Venture Capital. The difference between Castille, and Relativity was that Castille, for the most part, was fully invested, whereas Relativity was only half invested. Of the $15 million committed for the fund, $13.6 had been invested already. Additionally, Venture Capital typically has a much longer “J” curve, and the Board would not need a home run to turn the fund around, and they would have a better indication of the true direction of performance by the end of 2013. There were eight investments left in Castile’s portfolio, with two performing well. If these two investments turn out positively, the entire partnership could turn out to be a good overall investment.

Ms. Weiss asked Mr. Atkins if Castille was going to call the additional $1.4 million that was remaining for investment. He answered only for fees or for a follow-on investment, but not for new investments. Franklin Park would be watching them closely.

Mr. Woolworth provided Staff’s report, showing significant net cash flows across the portfolio. Distributions broke records across the portfolio in terms of cash coming back with approximately, $67.0 million distributed to investor versus $14.6 million contributed for the Fourth Quarter. For the year, the Private Markets portfolio returned positive net cash flows of approximately $94 million.

Mr. Woolworth said in light of the higher target, he would be requesting a pacing analysis review in March for the Investment Plan from Franklin Park.

Agenda Item #6 - Flash Report for Period ended December 2012

Mr. Stern reported that there were good market conditions in December from what was seen through the year, with solid performance across the portfolio.

The total Fund for December was up 81 basis points and trailed the policy benchmark by 40 basis points, because of Non-U.S. and Emerging market equities. Calendar-year-to-date, the Fund slightly underperformed the policy benchmark generating a solid return of 12.37% versus the total Fund policy benchmark by 12.70%..

Mr. Stern highlighted top performers for the month in U.S. Small and Mid Cap strategies. He highlighted specific Managers that were negative and positive contributors during the month.

The Board discussed Emerald and Mr. Woolworth provided an update on their performance and said that the Manager's current watch status was an active dialogue among Investment Staff. The rationale to keep them on watch was based on negative since inception performance, but due to the manager's recent positive contribution, Staff was reassessing if they should remain on watch.

Mr. Dubow asked what the time line was for Staff providing information on the current parameters for the watch system? Ms. Stukes-Baylor asked if the Board could have specific guidelines from the CIO as to when Managers go on or off the watch list, or probation. She noted that there was another manager that was doing well that was not on the list, and the Board was not giving them money, and she was trying to understand the rationale behind this.

Mr. Stern reported that there was strong performance across the majority of the portfolio, with the exception of the Emerging Markets. U.S. Equities and Fixed Income added value, even though they underperformed as a sector, Non-U.S. managers added 1.6% for the month. Fixed Income was positive for the seventh month in a row.

The Fund continued to be underweight some of the Alternative asset classes. Private Markets and Hedge Funds, and to a certain extent, Non-U.S. Equities were underweight, with an overweight to U.S. Fixed Income and U.S. Equities. Part of the allocation in Fixed Income and U.S. Equities will be used to fund future allocations to Private Markets and Hedge Funds.

The Non-U.S. Emerging Market assets had the biggest underperformance, and they were down -25 basis points due to the transition of assets for terminated managers, and most of the capital was in cash. Emerging markets rallied on a relative basis, and the Fund underperformed by -5%. Mr. Stern highlighted strong and negative manager performance for the month.

Mr. Stern reported that the Independence Fund was up 1.7% in December.

The Fund's Real Assets portfolio consisting of MLP's outperformed their respective benchmarks on a relative basis, but all had negative returns, because the sector had negative returns in December due to concerns regarding tax issues related to high yielding assets that were considered more tax efficient.

Agenda Item #7 – Hedge Funds – Jim Chanos Interview

Mr. Woolworth said that Jim Chanos of, Kynikos Associates, is one of the Fund's hedge fund managers. Mr. Chano's primary skill is on the short side of trading and he has done a good job of finding overvalued companies. The Board binders included information from an article in *Barron* that captured his thinking about certain sectors and strategies that he believes are overvalued.

Mr. Woolworth informed that Staff has access to Mr. Chanos and actively utilizes this resource to get some of his ideas and thinking regarding macro economic trends and sectors such as Asia and the natural gas space, where he had been prophetic in looking at driving performance on the short side.

Agenda Item #8 – Flash Report for Opportunity Fund Managers for the Period ended December 2012

Ms. Cherry reported that FIS underperformed the benchmark, and PFM outperformed for December.

There were three FIS managers that showed significant underperformance.

McClain Value, who was down -225 basis points for the month, ran a more concentrated portfolio of, about, 20 to 25 names and took larger positions in a few names. There was an energy holding that caused more than 50% of the underperformance, with three financial names that detracted between 15 and 20 basis points each. Overall there were no concerns with McClain.

Edgar Lomax was down -102 basis points for the month. They were on FIS' challenged manager list, and FIS'position was that the manager was meant to provide downside protection, and they would lag in a market where markets did well. On the flip side, when markets were not doing well, as in 2008 and 2011 where they were up 12%, they would fulfill their role in the portfolio.

Mr. Woolworth added that Staff's concern was the level of volatility with this manager..

Ms. Cherry continued in reporting that Edgar Lomax was down 9.5% for the calendar year, and for December, down, almost, 2%. She advised that FIS provided information, and there would be a write-up in the Quarterly report next month on Edgar Lomax.

Herndon International was down -94 basis points due to stock selection, in overweighting Japanese health care and staples' names, where they anticipated a stimulus, but the focus was on other areas in the Japanese market. They underweighted some Korean names that were major competitors of Japan.

PFM's manager, Marvista, remained on PFM's probation list. Staff had a call scheduled with PFM based on the fact that probation should trigger an automatic search. Staff was looking to determine where PFM was looking, in terms of potential candidates.

GW Capital, the portfolio's Small Cap Value manager, was down -200 basis points for the month, but overall performing well. Relative underperformance was due to stock selection, within the concentrated portfolio. One energy holding was down 9%, and that was the primary detractor. .

Ms. Pankey asked Ms. Cherry when she compared PFM and FIS' strategies, did PFM appear to be doing better than FIS because they had the different strategies, specifically fixed income. Ms. Cherry stated that both FIS and PFM were benched against the Russell 3000 for the domestic equity, and both held a Non-U.S. piece, although one was more focused on Emerging Markets. She noted that PFM had a Fixed Income component, and FIS did not which appeared to have helped PFM overall, but more analysis needed to be done.

Ms. Pankey said in looking at their overall performance for the month, there were two strategies for PFM, where they had the upper edge, because of the two different strategies reported together, but, in pulling out the Fixed Income, it looked as if neither was doing better than the other.

Mr. Woolworth said that Staff was looking to do an apples-to-apples comparison for each manager to provide a better picture of total performance

Ms. Pankey said if the Board began to put people on watch, they should make sure, as she had expressed several times, that they gave everybody a fair chance. In that case, PFM had the edge.

Mr. Woolworth said that Staff was making sure that PFM is properly adding a line item for manager excess return when they provided their Flash report, and they would ask them to improve the report with more information.

Mr. Bielli requested more analysis from Mr. Woolworth.

Mrs. Stukes-Baylor asked if the Board was still looking at changing the strategies for the Opportunity Fund. She recalled her concern of whether this would continue to allow opportunities for up and coming managers. She recalled the conversation where Mr. Handa talked about adding Hedge Funds and Private Equity. She asked if it was separate from the other issue that the Board would be discussing, and if there was a time-line for changing the Opportunity Fund structure, as far as adding the two classes.

Mr. Woolworth said that was on-going and Staff was in discussion to add that as part of the policy for Private Equity and Hedge Funds. He said that they would be meeting about the policy changes in February.

Mr. Bielli added, February and/or March.

Agenda Item #9 – FIS Memo on Organizational Changes

Ms. Cherry discussed FIS' memo informing that Larry Bernstein, Manager Research Director, departed the firm, effective January 1, 2013. FIS implemented a new structure. Where, previously, analysts were generalists, under the new structure, analysts were more focused, and their titles were changed to product specialists, with more involvement in research and due diligence. Overtime, Mr. Bernstein's role became more supervisory, rather than involved in the research with the analyst. FIS decided to eliminate the position. As a result, his responsibilities would be absorbed by Mrs. Byles-Williams and Mr. Gonzales, with the primary supervisory responsibilities going to Mr. Gonzales.

Mrs. Byles-Williams, CEO of FIS, implemented an employee stock ownership plan effective December 15, 2012.

Mr. Woolworth said that her ownership had been 100%.

Ms. Cherry said that Mrs. Byles-Williams' ownership decreased from 94% to, around, 60%, overtime. The idea behind the implementation of the program was succession planning and to retain top talent, to get employees aligned with the success of the firm. Staff saw it as positive. The second page of the memo provided the current ownership structure. All employees who had been employed for at least, one year, now had ownership in the firm.

Agenda Item #10 – Chief Investment Officer's Report

Mr. Woolworth reported for Securities Lending. He informed that some accounts were not working properly in the system and were corrected with JP Morgan. Some of Securities Lending income was understated by, about, $20.000. Securities Lending for the year was just shy of $2.3 million, which was an improvement from prior years. So, it was doing what it was supposed to do.

The Quality "D" valuation, which was negative when it started at $-2.1 million, was reduced to $-900,000. As the markets continued to rise with continued government intervention, the Quality D portfolio should continue to improve.

The Diversity managers' statistics were provided. Mr. Dubow asked Mr. Woolworth if there were any changes. He answered that Rhumbline had a change in ownership. Staff spoke with them and asked them to get a certification to determine whether they would still be qualified as an MWDBE firm. Rhumbline obtained certification from the State of Illinois. Law looked at the guidelines, and they were as strict as Philadelphia's guidelines, and everything seemed to be in order. In looking into the actual ownership, it was 26% women and 25% African-American. Per the City's guidelines, they could not combine categories to get the 51%, so, Staff would be changing the assets under management statistics that they presented on a monthly basis, because they did not technically qualify.

Mr. Dubow asked Mr. Woolworth if he knew what the number would look like if they did not have them. Mr. Woolworth said in using December as a benchmark, it would go from 43%, to, about, 19%. From an asset under management perspective, Rhumbline had a lot of money from the Fund. However, OEO was more focused on fees. From a fee perspective, there was, almost, no impact on the fee numbers, and, as of September 30, 2012, it was, about, 23% combined local and minority, and would likely go to 22.78%, by removing Rhumbline's fees, a relatively small impact in fee reporting.

Ms. Pankey asked if they would be given an opportunity to comply, or if they would be discontinued.

Mr. Bielli said that they had been in touch with Rhumbline for the last three months to give the firm an opportunity to get certified and provide the City with final ownership percentages. He did not think that there was dissatisfaction with the team or the firm from an investment perspective, however unless they changed their ownership, he did not know how they could come into compliance with the City's guidelines for MWDBE status. He invited Mr. DiFusco's comment.

Mr. DiFusco said, no, if a change in ownership added more women or African-American percentage of ownership, they would revisit, but under the Philadelphia guidelines and the Mayor's executive order, which the Board followed, they did not currently meet the criteria.

Mr. Bielli responded to Ms. Pankey's question that asked if the Board would have an eye to come into compliance, in terms of trying to get more minority, women, or disadvantaged managers, how would they address increasing the overall percentage. He said, yes, and the fact that the Board implemented a new asset allocation would give an opportunity to target MWDBE firms in the alternative investments space to add to the portfolio. They discussed it in detail with Mr. Handa, Cliffwater and Franklin Park, and when the new guidelines were done, as part of the extension of the Opportunity Fund, moving into the area of Hedge Funds, Real Estate and Private Equity, the goal was to dramatically increase the number of minority, women and emerging managers. It was their thought that in the immediate future, they had opportunities with the asset allocation and, with the expansion of opportunity into those alternative investment areas to increase minority participation.

Mrs. Stukes-Baylor said that the majority of minority and women-owned firms were currently in the Opportunity Fund and carried their weight of participation for the Board, as far as meeting the criteria. She would like to see it moved over into the larger core fund.

Mr. Bielli agreed that a new manager in the alternative space would be given opportunities, but not within the specific Opportunity Fund run by FIS and PFM, but, as part of the larger fund. They would be managers in the larger fund. So that would happen. As far as the minority manager, she was right. The majority of them were in the Opportunity fund, especially PFM, where all but one of their managers were minority managers. Six out of FIS' firms' were not minority owned. So, he agreed with her, and they would get that done.

Mr. Woolworth said that he would like to see more graduations from the Opportunity Fund into the core Fund where appropriate.

Mr. Bielli said there were minority and women owned companies out there that were large enough that might have the opportunity for the larger fund and should be considered outside the Opportunity fund.

Mr. Dubow asked if there was new business.

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

At 11:30 a.m., Mr. Dubow reconvened 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. Rice made the motion. Mr. Albert seconded. The motion passed.

At 11:40 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Mrs. Stukes-Baylor seconded. The motion passed.

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

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Rob Dubow, Finance Director
Board Chair