THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
MARCH 22, 2012

There being a quorum, Rob Dubow, Finance Director and Board Chairman, opened the Investment Committee Meeting at 9:30 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
Brian Albert, Deputy Personnel Director (Alternate)
Celia O'Leary, Deputy Director of Human Resources (Alternate)
James Leonard, Esquire, Divisional Deputy City Solicitor (Alternate)
Ronald Stagliano, Employee Trustee
John A. Reilly, Employee Trustee
Carol G. Stukes, Employee Trustee
Anne Kelly-King, 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 A. Cherry
Investment Associate:	Daniel Falkowski

Also Attending:

Robert O'Donnell, O'Donnell Associates
Harvey Rice, Esquire, First Deputy Finance Director (Alternate)
Christopher DiFusco, Esquire, Divisional Deputy City Solicitor
Tina Byles-Williams – FIS
Shalonda Epps – FIS
Andrew Thomas – Local #22, Firefighters
James Chanos – Kynikos Associates, LP
Brian Nichols – Kynikos Associates, LP
Arlene Sawyer – Investment Unit
Donna Darby – Investment Unit
Carmen Heyward, Investment Unit
Wayne Pollock - Visitor
Chester Skaziak - Retiree
Will Greene – Loop Capital

Agenda Item #1 – Approval of the Minutes of February 23rd and February 16, 2012

Mr. Dubow requested a motion to approve the Minutes for February 23, 2012. Ms. Stukes inquired as to where Ms. Pankey's first motion to hire NEPC could be found. Ms. Stukes recalled that she seconded the motion, but noted that it was not in the minutes. Ms. Weiss questioned from page three, Agenda Item #12, the General Investment Consultant Search, if there was a first motion to approve hiring NEPC. She said that the Board consensus was that there was such a motion.

Mr. Dubow asked with that change, was there a motion? Ms. Stukes (Agenda Item #12) said that the next change was that Mr. Handa did not recommend Cliffwater, but all three, Cliffwater, Meketa and NEPC.

Mr. Dubow requested a motion. Ms. O'Leary made the motion. Mr. Reilly seconded. The motion passed.

Mr. Dubow requested a motion to approve the Minutes of February 16, 2012. Mr. Reilly made the motion. Ms. O'Leary seconded. The motion passed.

Agenda Item #2 – Kynikos Opportunity Fund International Limited

Mr. Handa talked about Kynikos Opportunity Fund strategy of earnings based on shorting stocks that were going through accounting problems. He briefly highlighted the mechanics of their unique long/short strategy. Staff's report (Page 3) was showing that for 2011, the fund's performance was up 18% net, when the market was flat as an example of having uncorrelated returns to the markets, as well as to the Board's portfolio.

Mr. Dubow asked if there was an issue of the market going up, while they might be going down, and what would be the response? Mr. Handa said that the Board had, about a $1.5 billion or $1.6 billion exposure to the Equity Markets, and the Board had limited absolute protection when the markets did correct. During those periods, there was nothing in place to protect the Fund. Staff had a few managers on the radar, and they could add them (Kynikos) to that arsenal, if the Board approved the investment. Staff's thought was that it was good for the decision to diversify the portfolio and add to the uncorrelated stream of returns and performance for the Fund.

Mr. Nichols introduced Mr. Chanos and provided a background of Kynikos and their Opportunity Fund International Limited long/short strategy. Mr. Handa invited them to present their views about the banking system and the impact on real estate, with the impact it could or could not have on growth. They talked about places where they targeted their strategy. Mr. Handa asked them to talk about how they first sourced the idea. They talked about looking at the international commodities markets, then locating sources of commodity use. Mr. Handa asked them to talk about the percentage of their book that was exposed to the international markets. Mr. Chanos said in the Opportunity Fund, they tried to hedge and netted about 5% to 10% exposure. Their global portfolio was 20% in direct short in China.

Board discussion with them focused on the fund process, their experience with targeted international markets, and the hierarchy of the final portfolio decisions.

Mr. Handa said that Staff's recommendation was a $30.0 million investment.

Mr. Dubow requested a motion to approve. Mr. Stagliano made the motion. Ms. O'Leary seconded. The motion passed.

Agenda Item #3- Flash Report for the Period February 29, 2012

Ms. Epps said that there was a revised Flash Report for three manager changes, Stone Harbor, Causeway and Attalus. She reported that the fund returned 2.74% for the month net of fees.

Ms. Byles-Williams reported on the relative asset allocation, showing that the Fund was above the long-term target and below the implementation target for domestic equities. The Fund was on target for Non-U.S. Equities, and for Fixed Income below the implementation target. For Private Equity and Real Estate the Fund was, pretty much on target, and for Hedge Funds and Real Assets, the Fund was below targets. She provided a brief market commentary.

Ms. Epps reported the Composite Total Fund returned 2.74% versus the Composite Index which returned 3.24%, approximately 50 basis points below the benchmark on a net basis. For absolute return, the strongest performance was the Non-U.S. managers, who returned 5.56%, and underperformed the benchmark by 6 basis points. For the Domestic Equity allocation, Small Cap managers were the strongest performers, adding absolute return of 4.49%, 210 basis points above the benchmark. Fixed Income had a strong month 58 basis points above the benchmark. The Hedge Funds and Large Cap Equity broke down. Hedge Funds underperformed by 119 basis points, and Large Cap Equity was down about 5 basis points versus the index.

Agenda Item #4 – Flash Report for Opportunity Fund Managers for the Period February 29, 2012

Ms. Cherry reported for the month of February both Opportunity Fund managers outperformed their targets.

PFM selected a manager to replace Geneva in the search, Nichols Asset Management, who is 51% women-owned. They were funded $10.8 million on Monday. PFM described their investment process, as a combination of quantitative and fundamental research, where they categorized Growth stocks into three buckets, and based on the research created a concentrated portfolio of about 40 names. The top ten names in the portfolio accounted for, about, 25%.

For the sub manager performance, overall, February was a decent month. Eight of the ten managers outperformed their respective benchmarks. Philadelphia Trust was flat against the benchmark and MarVista underperformed by -32 basis points.

For FIS, mainly the Non-U.S. managers underperformed their respective target by 48 bps. FIS will be rebalancing the portfolio, and it should be completed by the end of the week. The managers that were terminated in the rebalancing were Ativo and Hanseatic. They were replaced with three managers that they were adding.

The managers that underperformed were Edgar Lomax, WCM, by -114 basis points and Victoria, by -144 basis points. There were no organizational changes for FIS to note.

Agenda Item #5 - CIO report

Mr. Woolworth reported Securities Lending for the month of February $138,673.0 in Securities Income, year-to-date was $266,217.0, and since inception $31.2 million.

For the Diversity managers for the Opportunity and Core Fund for the end of February, the managers were reporting 22.4% from the total assets under management. Staff's report included a breakdown of core, opportunity and privately held investments with corresponding percentages by category as previously requested by the Board.

Mr. Dubow asked Mr. Woolworth to walk them through what the 14.9% meant. Mr. Woolworth said that they wanted to get clarity about what was in the Opportunity Fund versus what was in the Core Portfolio and the impact of the Core portfolio versus the Opportunity Fund. He, also, separated it out privately held investments, as well. The 14.9% correlated to $562.0 million dollars under management in Core from minority-owned firms, representing 14.9% of the total Fund in assets for the Core Manager allocation.

Mr. Dubow asked what amount the Opportunity Fund represented. Mr. Woolworth said that $191.0 million in assets under management, represented the Fund's AUM of only those managers in the Opportunity Fund that qualified as MWBE, which is approximately, 5.1% of the entire Fund amount. Mr. Dubow asked if the 5.1% was the Manager percentage within the Opportunity Fund or if it was the Opportunity Fund's percentage of total assets with the Fund. Mr. Woolworth indicated that it represented the percentage of the entire amount of the Fund

Mr. Dubow asked how much was in the Opportunity Fund. Mr. Handa said $230.0 million.

Mr. Dubow asked Staff for a breakout of each category in the Opportunity Fund (i.e. MWDBE, Local/Suburbs, and Emerging) and how each manager fit, looking at $191.0 million in the minority-owned, how much was minority and how much was local.

Board discussion was about the money allocated to Staff's percentages that represented the Core and Opportunity Funds. The Board requested a revised version of the MWBE report to include Local/Suburb managers and all managers in the Opportunity Fund regardless of whether they qualified under MWBE or as Local/Suburb.

Mr. Handa referred to the manager meeting memos included in the materials and informed that Staff regularly met with existing managers with the thought, going forward, that it was important for the Board to be aware of the meetings and what the managers were saying. So, if they wanted to act in a more efficient way to increase manager participation or terminate, they would have communicated to the Board the whole time, as part of the robust monitoring they were doing. They would start to provide the memos on a regular basis.

Mr. Handa informed that Pershing, a $30.0 million investment approved in December, was not willing to sign the standard side letter. Staff had been looking for other investments and had a tremendous pipeline of investments that they would be presenting to the Board in the not too distant future. Staff decided, because of this issue, and, after consultation with the Law Department, that before bringing anyone to the Board, going forward, all legal issues should be discussed in advance.

Mr. Handa advised about the $384.0 million payment that the City presented to the Board and how Staff would be allocating. Staff's memo recommended how to allocate the capital, showing $100.0 million into the S&P Index, $200.0 million will be invested into the Bond Index, and Rhumbline would be managing both. Staff would be using part of the payment to pay benefits and fund managers. Staff's report included a breakout of all of the cash flows starting from the 21st through to April 30, 2012. Additionally, the report was showing, as of February 29, 2012, how the Fund asset allocation would look with the injection of the $384.0 million. Domestic Equity would be at the lower end of the target range. The Fixed Income portion would go to 30%, at the bottom of the target range. Part of the payment would be used to fund Kynikos, as well as others.

Mr. Handa said that Staff met with JP Morgan, and they were expected to be the Fund Custodian by April 2, 2012, but it was being pushed back one month. A number of issues arose about the contracts. However, with the help of the Law Department, particularly, Mr. DiFusco, Staff was confident that it should be done by May 1, 2012.

Mr. Bielli added that they thought it would be April 2, 2012, and worked night and day, the whole weekend to get it done. There were a handful of issues on Securities Lending amendments with JP Morgan. They make money on Securities Lending, and it was the way that Staff protected the Fund. There was a meeting on Tuesday to hammer everything out in person.

Mr. Falkowski informed that the Board has approved the SIS Checklist service and had yet to receive any service as the contract was not finished, yet. Staff's thought, at the time, was that the SIS Checklist would be worthwhile for the Fund before hiring Marco Consulting, who is active within the space. In talking with Marco, Staff felt that the services would overlap with those offered by the SIS Checklist, and we could get the service from Marco free of charge. Marco Consulting is extremely active in attending meetings and very much connected, in terms of the types of shareholders being proposed by other funds. Therefore, the SIS Checklist contract was not needed. The cost of the SIS Checklist service was originally $5,000.00 and eliminating it would be a savings to the Fund.

Mr. Butkovitz said that the Board could cancel the SIS contract.

Ms. Weiss noted that Board calendars for April, May and June were in the Board binders. There was no other business for the Investment Committee.

Ms. Weiss adjourned the meeting at 12:01 for Executive Session. After Executive Session, 12:20 p.m., and before the Investment Committee Meeting of the Board of Pensions and Retirement resumed, Ms. Weiss advised that Executive Session was held to discuss confidential matters of law and other matters..

Ms. Weiss asked if there was any new business.

At 12:25 p.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Ms. Stukes seconded. The motion passed.

At 12:25 p.m., Ms. Weiss requested a motion to reconvene 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. Mr. Stagliano seconded. The motion passed.

At 12:25 p.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

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

____
Paula Weiss, Esquire
Alternate Board Chair