THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
MARCH 28, 2013

MEETING MINUTES

There being a quorum, Rob Dubow, Finance Director, Board Chair, called the Investment Committee Meeting to order at 9:39 a.m., in the Board Conference Room, Two Penn Center Plaza.

Present:

Rob Dubow, Finance Director
Paula Weiss, Esquire, Alternate, Deputy Director of Finance
Alan Butkovitz, Esquire, City Controller
Harvey Rice, Esquire, Alternate, First Deputy City Controller
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor
Brian Albert, Alternate, Deputy of Human Resource
Celia O'Leary, Alternate, Director of Human Resources
Ronald Stagliano, Vice Chair, Employee Trustee
Carol G. Stukes-Baylor, Employee Trustee
Andrew P. Thomas, Employee Trustee
Veronica M. Pankey, Employee Trustee
Ronald Stagliano, Employee Trustee
Folasade A. Olanipekun-Lewis, City Council Designee

Francis X. Bielli, Esquire, Executive Director
Sumit Handa, Esquire, Chief Investment Officer
Brad Woolworth, Deputy Chief Investment Officer
Christopher R. DiFusco, Esquire, Director of Investments
John Foulkes, Esquire, Investment Officer
Dominique A. Cherry, Investment Officer
Daniel Falkowski, Investment Officer

Also Attending:

Katherine A. Mastrobuoni, Esquire, Assistant City Solicitor
Robert O'Donnell, O'Donnell Associates
Jacob Walthour, Cliffwater
Joshua Harris, Apollo Philadelphia Strategic Investment Fund, L.P.
Michael Fox, Apollo Philadelphia Strategic Investment Fund, L.P.
Danielle Thorsen, Apollo Philadelphia Strategic Investment Fund, LP.
John A. Reilly, Firefighters, Local #22
Daina Stanford, Administrative Assistant
Donna Darby, Clerk-Stenographer II
Carmen Heyward, Clerk-Stenographer II

Sean Walsh, Philadelphia Daily News
Will Greene, Loop Capital Management
Keith Graham, Advent Capital
Charles W. Johnson, Quoin Capital

Agenda Item #1 – Approval of Minutes of February 28, 2013

Mr. Dubow opened the meeting. Minutes for the February 28, 2013 meeting were not ready for review. Ms. Stukes-Baylor made the motion to table the minutes. Mr. Stagliano seconded. The motion passed.

Agenda Item #2 – Apollo Philadelphia Strategic Investment Fund, L.P.

Mr. Handa advised that Staff and Cliffwater were recommending a $50 million investment in Apollo Philadelphia Strategic Investment Fund, L.P., as a strategic partnership.

The vehicle was created for the City as a customized tactical account with a unique structure that offers a meaningful current income component and provides the ability for the manager to take advantage of dislocations in the market. Further, the account offers the flexibility to allocate across multiple firm platforms and the opportunity to take advantage of Apollo's deep bench of investment professionals. The structure was designed to lower fees and provides investment opportunities that will mitigate the "J" curve common in private market securities with half the length of the investment time horizon for this type of strategy. The flexible investment mandate, capital commitment from Apollo, the compression of the investment period, and current income focus will help provide stable cash flows for the future of Plan beneficiaries.

Mr. Handa highlighted the rationale for targeting these types of investments and discussed the current market related to banking requirements and leveraged ratios, the limits of banking proprietary trading changes, and the type of capitalization required to engage in non-mark-to-market security transactions. The Fund would be using Apollo to provide a sufficient level of liquidity while also generating a significant return. He described the structure of the proposed vehicle as a hybrid-type Hedge Fund with Private Equity attributes that is has both liquid and illiquid components and similar to the Board's existing investment with manager KKR.

Ms. Stukes-Baylor asked Mr. Handa if they were the only manager that could provide this type of account, and if Staff had looked at other managers. Mr. Handa said that Staff looked at approximately 1,000 managers over the last two years to come to the conclusion to move forward with Apollo. He highlighted the strong alignment of interests between Apollo and the City by Staff requesting that the manager put up 10% of the capital rather than 1% of the capital that is more common with these types of investments. Based on the recommendation to invest $50 million, the manager would be required to put up at least $5 million of their own capital.

Ms. Stukes-Baylor requested that a more detailed process for hiring managers be implemented that allows for several of the managers Staff reviewed during the due diligence phase to be considered by the Board, in light of the increase in trustee benefit lawsuits. She expressed concern about Apollo having a decline in value in one of their products in 2008, where the investments were significantly distressed. Mr. Woolworth responded that the decline in value of those investments was a mark-to-market event and the values quickly increased soon after.

Mr. Dubow invited Staff to talk about the process. Mr. Handa talked about the 2% management fee and 20% of the profit as a standard charge for hedge funds and private equity. Apollo requested higher fees, but Staff said, no. Staff concluded that they were a good manager, and most managers had a challenging 2008. The market was down approximately 37% in 2008. Mr. Handa said that when interviewing managers, Staff asked detailed questions about their processes and investment styles, and not all of the managers interviewed were able to adequately answer these questions to Staff's satisfaction, which posed a red flag. He offered to provide a report in a more structured form.

Mr. Stagliano asked if the investment had a time-line or was it strictly tied to conditions in the market that could change. Mr. Handa said there was a time-line. Half the vehicle was in a liquid strategy, resulting in lower fees. The illiquid portion in the portfolio was up to six years, and lower than most managers would offer. Staff negotiated a hurdle rate of 8% from Apollo which means the manager will not receive carried interest until they are able to deliver an 8% return to the Fund. Staff and the Law Department incorporated and negotiated a dividend component as part of the account structure to allow for annual liquidity should the need arise for benefit payments.

Mr. Dubow asked if there were any redemption restrictions. Mr. Walthour said that there was a one-year lockup period, but some of the assets in the illiquid portion of the portfolio, could have a time horizon of five to six years.

Mr. Dubow invited Apollo to present.

Mr. Harris greeted the Board members and introduced the Apollo Philadelphia Strategic Investment Fund, L.P. representatives Michael Fox and Danielle Thorsen. He provided a brief overview of their backgrounds and described the partnership and the investment process across the firm's multiple platforms and the anticipated performance from each strategy

Ms. Stukes-Baylor asked Mr. Harris to provide a percentage of their staff that was women or minority. He said that he did not have the numbers on hand, but he would provide them after the meeting.

She asked Mr. Harris if Apollo had a lot of public pension plan investors. He said that, almost all of the capital received by Apollo was from Public Funds; he estimated approximately 75% to 80% of Apollo's capital was from Public Pension Plans.

Ms. Stukes-Baylor noted that their report said that Apollo would be disappointed if the City of Philadelphia did not increase the amount of capital with the account over time. She asked if that was a deal breaker or just a consideration. Mr. Harris said that it would not be a deal breaker. They could make the position smaller. It would not change the diversification or the investment strategy. It was their hope that, over time, that the Board would like the results and give the firm additional capital.

Mr. Dubow asked Mr. Harris about the firm's turnover. Mr. Harris said that it was very low. He added that in the investment business it takes years to develop a team, over time, to understand their strengths and weaknesses. Apollo's investment culture was value-oriented and only bought securities that were inherently mispriced, which took a long time to develop. They did not want to lose people.

Mr. Dubow requested a motion. Mr. Albert made the motion to invest $50 million in Apollo. (the second was not announced for the record). Mr. Dubow requested a Board vote. Ms. Stukes abstained. Ms. Pankey opposed. The motion passed.

<u>Agenda Item #2.A – Recommendation for Assumed Rate of Return</u>

Mr. Dubow said that the recommendation from the actuary was to lower the assumed rate of return to 7.95% and the assumed salary calculation down to 0.2%, and to account for the Pension Adjustment Fund, although this did not have to be done until next year.

Mr. Dubow's recommendation was to do the earnings assumption and the salary change.

Ms. Stukes-Baylor asked if the Board could table.

Ms. Pankey made a motion to table the Agenda Item until the Board went over it and until there was more discussion. Mr. Dubow said that there was a motion to table and requested a second. Ms. Stukes-Baylor seconded. He requested a vote. Ms. Stukes-Baylor, Ms. Pankey, and Mr. Thomas were in favor. Mr. Albert, Mr. Leonard, Ms. O'Leary, Mr. Rice and Mr. Stagliano were opposed. There were no abstentions. The motion failed.

Ms. Pankey asked if there was an answer to their questions. He asked what her questions were. Ms. Pankey said any questions that anyone may have. Mr. Dubow said that they would try.

Ms. Stukes-Baylor said that she was not going to vote. She did not think it was fair that there was no general discussion with the Trustees. If there was supposed to be outreach, she was told it would be reduced to 7.95% and a reduction for the salary, but she did not hear it not from them.

Mr. Dubow said that Mr. Kent talked about it at their last meeting. He quoted from page 18 of the actuary's report last time to consider reducing the calculation salary scale to 0.2%. It was in the document that he gave the Board, and Mr. Kent said that when he did the experience report, he would provide more detail, but was still recommending that the Board do it, but there might be additional changes next year.

She asked Mr. Dubow what was the issue that was not being dealt with at the last meeting. He said the Pension Adjustment Fund that did not have to be done until next year, because he asked Mr. Kent what would happen if he did not do the Pension Adjustment Fund this year.

Ms. Stukes-Baylor asked why the Board was not going lower than 7.95%, and why were they inching down. Mr. Dubow said that the rate had gone down over three or four years from 8.75% to 7.95%. Mr. Kent said that he was giving them proposals to take down the assumed rate of return incrementally, because he knew the impact it had on the contribution that the City would be required to make.

Ms. Stukes-Baylor said that she did not understand why they could not lower it more than 7.95%. Mr. Dubow said that he presented Mr. Kent's rationale, and he agreed with the rationale.

Mr. Dubow asked if there were other questions.

Mr. Dubow requested a motion. Mr. Albert made the motion to go with Scenario #4, with the 7.95% interest rate and decreasing the salary assumption scale by 0.2%. Ms. O'Leary seconded. Mr. Dubow requested a vote. Ms. Stukes-Baylor, Ms. Pankey and Mr. Thomas were opposed. There were no abstentions. The motion passed.

<u>Agenda Item #3 – Additional Capital Recommendation – Taconic Opportunity Master Fund L.P.</u>

Mr. Handa referenced Apollo's presentation, which discussed how the market environment was frothy and overvalued in certain aspects. Taconic, one of the Board's hedge fund managers, Staff believed, was very good at riding out the market volatility. Staff believed the manager had done a good job since 2008 in managing money for the City and in generating consistent returns.

Staff and Cliffwater recommended an additional $20 million increase for Taconic. It was their thought that the firm's risk management was superb, and the manager's investment style was well suited for the Fund.

Mr. Dubow requested a motion. Mr. Albert made the motion to approve an additional $20 million for Taconic Opportunity Master Fund L.P. Ms. O'Leary seconded. There were no oppositions. The motion passed.

<u>Agenda Item #4 – Additional Capital Recommendation – Causeway Capital Management</u>

Mr. Handa noted that Causeway was approved by the Board in 2011. It was the best performing manager versus its benchmark last year. The Board currently has $130 million with this manager.

Mr. Handa described Causeway as a long-only equity manager and informed that the company CIO and founder visited the Investment Staff on March 6, 2013. He highlighted an article *Barrons* magazine published, during the same week, about how the management at Causeway were rising stars.

Staff and Cliffwater recommended an additional $20 million for Causeway Capital Management.

Mr. Dubow requested a motion. Mr. Albert made the motion to increase the allocation to Causeway by $20 million. Mr. Leonard seconded. Mr. Dubow requested a vote. Ms. Pankey abstained. Ms. Stukes was opposed. There were no oppositions. The motion passed.

Ms. Weiss requested Staff to provide the ownership breakdown from them. Mr. Handa said that Staff would provide the information.

<u>Agenda Item #5 – Termination Recommendation – O'Shaughnessy Capital Management</u>

Mr. Handa noted that the Board approved funding for O'Shaughnessy Capital Management last year. He described the manager as having a quantitative investment approach with a fundamental overlay.

The major reason for their nearly 500 basis point underperformance was an investment focus on large cap companies.

Mr. Handa said that Staff was recommending that the Board end their relationship with O'Shaughnessy and redeem the capital and move into an index fund until they found a new manager opportunity for the capital.

Ms. Stuke-Baylor expressed concern about ending the relationship too early as they had not even been invested for a full year.

Mr. Leonard asked if there was a fundamental expectation of them as a manager that had changed, given the short time frame. Mr. Handa said that in the same period of time, the markets were up almost 500 basis points above what the manager returned. It was an opportunity lost for the Fund. Based on the history of the firm's track record and process employed, during a bull market the manager should have outperformed. Staff was concerned that in an environment where there was a rising market the manager was expected to at least be in-line with, or beat the benchmark.

Mr. Leonard asked if it was a bad pick, or had something in their strategy fundamentally changed. Mr. Handa said that his thought was that it was their process and strategy, as well as a combination of things.

Ms. Stukes-Baylor again expressed concern about the short time frame.

Mr. Walthour said that Cliffwater discussed their concern about the recommendation with the staff internally at Cliffwater, and they elected not to support the decision to terminate the manager. A lot of thought went into picking a long-only manager, in sifting through large data bases and deciding how they fit with existing managers in the portfolio. Cliffwater made the assumption that when the Board made the decision to hire, they thought about the fit with others in the portfolio. It provided diversification. So, when some did well, others did not do well. Cliffwater's thought was that it was applicable in this case, and that the manager was going through a brief period where the strategy was underperforming.

Cliffwater had interviews with the people at O'Shaughnessy, and their process was explained exactly as it appeared in their marketing materials. There were periods in which quantitative managers underperformed their benchmark. In the case of Causeway, in looking at the history of underperformance, then looking at the next 12 months, and the next 24 months had been some of the best performing periods for the investment periods for this program. Cliffwater's concern was that the period was too short to evaluate the manager. Second, it was necessary to look at what happened to the strategy relative to the index after the period and market, and they proved that they were able to significantly outperform after a period of underperformance.

He said that Cliffwater did not support the recommendation, and it was their thought that it was a bad precedent to terminate a manager after a only few quarters.

Mr. Stagliano requested a point of order to table for 30 days.

Mr. Dubow said that there was a motion to table. Mr. Stagliano made the motion to table for 30 days. Ms. Stukes-Baylor seconded. The motion passed.

<u>Agenda Item #6 – Performance Monitoring Procedures</u>

Mr. Handa noted that the daily and monthly monitoring process was cumbersome and confusing to everyone, and with the help of Cliffwater and Staff, they were proposing to simplify the process. They came up with a different way to monitor performance and risk management of the managers by using labels A, B and C.

Managers labeled as "A" would denote a recommendation to give the manager more capital, "B" would mean a "hold" or that everything was fine, and a "C" would indicate a recommendation to either reduce the position or terminate.

Mr. Dubow suggested that the Board review the recommendations before coming back at a later date to discuss further.

Ms. Stukes-Baylor asked Mr. Handa how long it would take Staff to decide on A, B or C. She asked what would be the time frame, would it be based on inception-to-date or year-to-date, and what determined where they were placed.

Mr. Handa said that the majority of managers would be in the "B" category and that "C" would be when Staff recommended to terminate or reduce a position. There was no set time frame.

Ms. Stukes-Baylor used Causeway as an example and inquired if they would receive an "A" or a "B" under this proposal.

Mr. Handa said that it was subjective, but that he believed they could be listed as an "A" due to Causeway's good performance.

Mr. Leonard asked if they were suggesting requiring more definition in the guidelines. Mr. Walthour asked Mr. Leonard if he wanted a qualitative and quantitative component.

Mr. Dubow said, yes, that sometimes, it was not performance, but strategy or a change in personnel.

Mr. Leonard said that it would probably make sense to have a Subcommittee with Staff and work on some of the issues discussed today.

Mr. Dubow requested volunteers for the Subcommittee, and Ms. Pankey, Mr. Leonard, Ms. Weiss and Ms. Stukes-Baylor volunteered.

Agenda Item #6.A – Cash Proceeds

Mr. Handa discussed the cash proceeds that Staff anticipated coming from the City, stating that he had an idea of the amount, but was not sure about the exact date. He advised that the Fund was getting a portion of the proceeds today, but the final amount would be approximately $362 million

Staff discussed the allocation of capital with Cliffwater and proposed to allocate a portion of the capital to benefit payments, a portion to the Apollo Philadelphia Strategic Investment Fund, L.P., Taconic, and Causeway that were just approved today by the Board, and to give the remaining capital to passive strategies that were in line with the asset allocation.

Ms. Pankey requested a motion to table, because they just made a motion to table the Monitoring Procedures, in terms of how the Board determined to give the manager additional money. Mr. Handa said that the Board approved Taconic, Apollo and Causeway. The rest were index funds. Ms. Pankey withdrew her request.

Agenda Item #7 – Flash Report for the Period ended February 2013

Mr. Walthour reported that February was a positive month for risk assets on the Equity and Fixed Income side. The U.S. markets led the way among Equity markets. The International markets disappointed. Fixed Income markets did well. Commodities had a 4% drop in the month, due to the rise in the U.S. dollar. The S&P 500 Index and the MSCI EAFE were the leaders in the Equity asset class. The MSCI EAFE did well, because of new policies related to Japanese currency. Within credit, everything, except Emerging Markets did well. Alternatives did not do well, with the exception of the long-only asset classes. REITS and MLPs did well. For Hedge Funds, as an asset class, the group did not do as well as some of the other asset classes for February, and the HFRI Fund Weighted composite was only up 0.14%, but, with long-short, they did well during the rise of Equity long-short, up as much as 0.5% and Distressed was up 11 basis points.

The Total Fund underperformed the new Total Fund benchmark by 54 basis points, underperforming for the trailing three months by 89 basis points and fiscal year-to-date by 42 basis points. For the calendar year, underperformance was down by 48 basis points, mostly due to manager underperformance.

Cliffwater's report highlighted top and bottom contributors for February, as well as year-to-date top and bottom contributors. He noted that Kynikos rallied as a result of their short expertise in a falling equity market. Their short position did not do as well in a rising Equity market. When the market came down, they would demonstrate the value of not hiring exclusively long-only Equity managers.

Emerald, AJO and Karsch remained on the watch list, with nothing particularly concerning about the managers occurring during the past month. For the past month, Karsch was starting to do well, as well as Emerald, one of the top performing managers this year.

The Flash Report was showing that the total Fund underperformed the policy benchmark by 54 basis points. The Fixed Income Investment Grade investments were the largest contributor to the negative performance.

Private Assets detracted. It was important to remember that they are reported on a lag basis. He suggested talking with Staff about presenting the numbers for the liquid portion of the portfolio and reporting Private assets separately, because of the 297 basis points difference between the current benchmark and the lagged Private Markets numbers for the month. When the lag is not a factor, and performance is compared against final numbers versus estimates, it would likely show outperformance, relative to the benchmark.

He continued by saying that the U.S. Equities overweight was a positive contributor. The asset allocation was showing an overweight to U.S. and an underweight to International.

The Fund's asset allocation based on the new policy targets was showing an underweight to Hedge Funds. Taconic and Apollo could change that. The decision to put $50 million into REITs, which was going into the Real Assets allocation, will help to move the Fund towards the policy benchmark.

The J.P. Morgan Flash Report was showing that four of the liquid asset classes were negative performers relative to the benchmark. In thinking about the size of the U.S. Equity Portfolio asset class and Non-U.S. Equity Asset class and Investment Grade Fixed Income, the bulk of the Fund's underperformance was there. The U.S. Equity portfolio underperformed by 18 basis points With the exception of O'Shaughnessy Capital Management, things went well. Ceredex Value Advisors underperformed the benchmark, as well.

Within the Opportunity Fund category, both managers slightly underperformed their benchmarks.

The Non-U.S. Developed Equity portfolio underperformed by 25 basis points. The index was down, but the managers, both active and passive, were down more than the benchmark.

On the Non-U.S. Equity Emerging side, for the month, the Fund was up by 13 basis points. The delay in the contracting process for a replacement manager affected the longer term numbers. Given the month with the positive performance, and the proximity to the index, it was Cliffwater's thought that the issue was completely cured, with the program being managed as it should be.

Within Investment Grade Fixed Income, Brandywine underperformed the index, but added a lot of value over the long term. There was hope that it would correct quickly and add a sustained record of outperformance on a monthly basis.

Within Opportunistic Fixed Income for Investment and Non-Investment-Grade, there was 28 basis points of underperformance.

For Absolute Return, it was important to remember that it was done on a lagged basis. The portfolio, for the month, outperformed by 100 basis points and was performing as expected.

In highlighting notable performance issues, ESG Cross Border Equity Offshore Fund, Ltd., underperformed for the one and three-month period, and was behind the benchmark at -6.35 basis points. The one year was showing that they were 570 basis points above their benchmark. It was related to his previous point about judging managers on performance time frames that were too short, because they were an excellent manager for the portfolio and had been over the course of one year. In looking at shorter time frames, it might appear that they should be on the watch list. Cliffwater's thought was that they were doing what they were expected to do.

The Independence Fund was down 34 basis points for the month, and relative to the S&P 500 Index, year-to-date, was not doing well, but since inception, significantly outperformed relative to the benchmark

Agenda Item #8 – Flash Reports for the Opportunity Fund Managers for the Period ended February 2013

Ms. Cherry reported the February performance for the Opportunity Fund managers. Both managers underperformed their respective targets for the month, PFM by -9 basis points and FIS by -16 basis points.

Ms. Cherry reported that for FIS, CUPPS Capital Management and McClain Value Management were the worst performers on the US side in the month, while Hanoverian was the worst performer in the Non-US portfolio. Staff spoke with FIS about these two submanagers.It was explained that the two submanagers were performing well within their peer group. For both CUPPS and McClain, two names caused most of the relative underperformance against the Russell 3000 index. For McClain, the submanager sold one of their positions (Verafone) due to organizational concerns with this company.

Mr. Dubow asked Ms. Cherry if they were new. Ms. Cherry said that they had both been in the portfolio for less than one year, CUPPS began in April 2012 and was coming on one year, and McClain began in August of 2012.

Mr. Dubow asked Ms. Cherry, other than performance, were they doing what they were expected to do in the portfolio. She explained that she and Mr. DiFusco visited FIS recently and discussed performance as well as their due diligence process for selecting and monitoring managers. She informed that FIS constructed their portfolio in such a way that there were going to be managers that would outperform when others would underperform during certain periods. She acknowledged that in purely looking at some of the numbers, there was concern; however, she was not concerned with FIS and their process of monitoring the performance of the portfolio. She informed that Staff was doing an analysis to take a deeper dive into the submanagers and their performance.

For PFM, there was one manager with notable underperformance, Herndon International. The relative underperformance was driven primarily by stock selection. In response to the question of whether this meant that the manager was not good at investing, Ms. Cherry explained that it wasn't necessarily that the manager was not good at making investments, but it meant that some of the names in their portfolio did not perform well against the benchmark. This could be the result of factors affecting performance that were not tied to their analysis, but the manager could believe that a company is still fundamentally sound. There were three names in particular that were each down more than 10% in the month.

Agenda Item #9 – Chief Investment Officer's Report

Mr. Handa reported that Securities Lending for the month reflected total income, and was performing as expected.

Mr. Handa reported that the unrealized Quality "D" performance had improved as a result of rising markets.

He provided the Diversity and Manager breakdown. He highlighted the fact that the number of managers, in aggregate, was declining from 131 to 126 in line with the strategy to concentrate on the best performers and allocate more capital to those managers that were able to outperform. The total Plan assets had gone up over the same period.

Mr. Handa indicated that the Plan participated in the market rally in 2012 and the overall AUM of the Plan benefitted. This was the reason that the Plan held a large portion of the assets in long-only Equities and Fixed Income, and also the Private Equity Markets, resulting in the AUM increasing. Additionally, AUM was helped by the City's capital contribution in late October or early November.

Ms. Stukes-Baylor noted that the numbers for the Philadelphia and Suburbs and Diversity Managers were down significantly. Mr. Handa said that was due to the removal of Rhumbline from the diversity numbers

Mr. Dubow asked if there was a report detailing the breakdown of the fees by manager. Mr. Handa said that it was provided on a quarterly basis and was shown at the last Board meeting. Mr. Woolworth said that it was slightly more than 23% for Local and Diversity Managers combined prior to the removal of Rhumbline and was down to 22.9% once Rhumbline was removed Mr. Handa said that it represented approximately 30 basis points of change. Mr. Bielli said that, currently, it was, about 11.78% for fees for just minority and women firms.

Mr. Dubow asked how the 11.78% for Minority and Women firms changed in the past year, and Mr. Bielli said, about, 11.78% versus approximately 12.5%, because of Rhumbline.

Mr. Dubow asked if there was a long-term goal for participation to increase. Mr. Handa said that Staff would have a recommendation on how to increase and improve those numbers.

Mr. Bielli added that in early May, Mr. DiFusco will be attending an Emerging Managers' conference in Chicago that would bring together minority and emerging managers within the United States. As diversity managers are identified in the Alternative's space, Staff anticipates that the number of diversity managers available for the Fund to invest capital would increase within the next six to 12 months within the Alternative asset classes of Private Equity, Real Estate and Hedge Funds

Mr. Handa said that Staff had already identified several diversity managers that would be able to be presented to the Board within the framework of six to 12 months.

Mr. Bielli added that Mr. Handa met and was impressed with a group of minority managers that, unfortunately, did not meet the City's current guidelines for Alternative Investments. That was the emphasis to edit the Opportunity Fund guidelines for Hedge Funds, Real Estate and Private Equity to allow for these managers to have the opportunity to receive capital from the Fund.

Mr. Leonard asked if diversity numbers were still being provided to the African-American Chamber of Commerce. Mr. Bielli said that Staff notified the African-American, Latin American and Asian American Chambers of Commerce, at both the state and local levels.

Mr. Handa talked about Staff's meeting on March 5, 2013 with Barings Asset Management, to understand why they were underperforming. Barings indicated that they had an overweight and a larger allocation to basic materials that had detracted from performance. He noted that Staff was concerned and monitoring closely, but that it was not a reason for termination.

Related to the report on the Independence Fund, it was approaching the first year, and Staff would be asking Cliffwater to provide an overview. He reported that the fund was down by, about, -34 basis points for the month of February, but was up, about, 1.2% for March. Staff would provide an update. The one-year report would be provided at the end of April, the Fund started in May of 2012.

Ms. Stukes-Baylor asked Mr. Handa if the Board was looking to invest in infrastructure funds, or if it was too risky a venture, or was the Board investing in another asset allocation. Mr. Handa said that Staff looked at infrastructure funds in the last year, but had not found one, to date, that met the risk-return objectives.

Ms. Weiss asked if there was any other business for the Board of Pensions and Investment Committee.

Ms. Stukes-Baylor advised that she and Mr. Rice would be attending a CalPERS Conference in May. The May meeting was moved to Wednesday, May 22, 2013 from May 23, 2013.

At 11:50 a.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Mr. Thomas seconded. The motion passed.

At 11:50 a.m., Ms. Weiss reconvened the full 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 11:50 a.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 the Minutes on ______________________________________.

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Paula Weiss, Esquire
Alternate Board Chair