THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
April 25, 2013

MEETING MINUTES

There being a quorum, Paula Weiss, Esquire, Alternate Board Chair, called the Investment Committee Meeting to order at 9:43 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
Hilary Cornell, Esquire, Alternate,
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
Sumit Handa, Esquire, Chief Investment Officer
Brad Woolworth, Deputy Chief Investment Officer
Christopher DiFusco, Esquire, Director of Investments
John Foulkes, Esquire, Investment Officer
Dominique A. Cherry, Investment Officer
Daniel Falkowski, Investment Officer

Also Attending:

Katherine Mastrobuoni, Esquire, Assistant City Solicitor
Ellen Berkowitz, Esquire, Deputy City Solicitor
Daina Stanford, Administrative Assistant
Carmen Heyward, Clerk Stenographer II
Donna Darby, Clerk Stenographer II
Jacob Walthour, Cliffwater
Robert O'Donnell, Esquire, O'Donnell Associates

Dora Andonova – PICA
Pam McCue – Financial Investment News
Will Greene – Loop Capital Management
Steve Leming – Penn Capital Management
Chester Skaziak – Retiree, Philadelphia Firefighter
Charles Johnson – Quion Capital

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Agenda Item #1 – Approval of Minutes of April 25, 2013

Ms. Weiss opened the meeting and requested approval of the Minutes for March 28, 2013.

Mr. Stagliano made the motion. Mr. Albert seconded it. The motion passed.

Agenda Item #2 – Hedge Funds – Investment Policy Statement Revisions

Mr. Woolworth said changes were made with suggestions from Ms. Weiss. One suggestion was to refer to the portfolio allocation studies instead of inserting the specific percentages for each guideline. Using this process, the policy guidelines will not have to be redone every year. Another suggestion was to refer to the prohibited Investments instead of listing each restriction; because there are new restrictions, such as the Sandy Hook Principles, it would be more efficient to refer to the prohibited investments**.**

Agenda Item #3 – Private Markets – Investment Policy Statement Revisions

Mr. Woolworth stated Mr. Walthour made the suggestion to have uniform policies and procedures across the asset classes so you'll know where to find specific information in each section. Private Markets existing guidelines were used as a template for the creation of the Hedge Funds and Real Assets guidelines.

Agenda Item #4 – Real Assets - Investment Policy Statement Revisions

Mr. Woolworth said the largest change that has taken place is in Real Assets, as it was once only just real estate. Definitions have been added to include investments in Timber/Farmland, oil, gas, tips, commodities and MLP's.

Agenda Items 2, 3, & 4

Ms. Weiss requested a motion to approve all of the new revisions to the investment policies. Mr. Albert made the motion and Mr. Stagliano seconded it. There was no discussion. All were in favor. There were no oppositions or abstentions. The motion passed.

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Agenda Item #5 – Flash Report for the Period Ended March 2013

Mr. Walthour reported there has been a rise in the fundamentals within the U.S. housing sector. REITs continue to rise. Hedge funds were up and continue to generate positive returns. Hedge funds have been lagging in long-only indices. Gold, from a commodity point of view continues to experience high volatility with downside implications.

Commodities were up with the exception of gold. Treasuries continue to reach a maximum of positive gains. Japan continues to be the hottest market. The S&P 500 climbed to a record high, through a combination of strong earnings and revenues. The numbers for the major asset classes were all positive with leadership going to the S&P 500. It was up almost 4% for the month of March. The international markets lagged. Non-investment grade and investment grade bonds were positive contributors. Within equity markets, the U.S. did better than the international markets. Europe and the emerging markets continue to lag behind for the month and on a year-to-date basis.

Fixed income was all positive. With rates in the investment grade sector almost below 50 basis points, people are focusing on high yield because you can get between 3% and 5% in terms of yield, focusing on bank loans. You can get five plus percent in terms of yield, focusing on MBS and ABS.

This was a positive month across the Board for Hedge Funds. The Hedge Funds Weighted Index was up 1% but the real return came from the equity market. The hedge funds are now up as a group. They have taken a fairly positive view of the U.S. Equity Markets and they've extended their net long exposure on average 50% - 60%. That's one reason why they've contributed to generate a positive return this month.

Event driven managers that focus mostly on credit and are non-investment grade nature and event driven equities, did well. There had been a shift away from credit and more towards equities. A lot of our credit managers and event driven managers focus more on equities because that's where the returns have been coming from.

Macro Managers continue to disappoint relative to other hedge fund strategies. That can be viewed as a direct exposure to the energy sector. Macro gas prices are up almost 100% year over year and that's flowing through to the MLPs. That sector of the market is up 20% year to date. Some of the managers delivered as much as 6% for the month of March.

Commodities were up 67 basis points. This mainly had to do with industrial commodities, specifically iron and ore which have been on the rise.

Mr. Walthour complimented the Board and staff. He said the portfolio is a positive picture and that it is a good place to be. He said the Board should be proud of those investment results and the investment staff deserves some credit.

Mr. Walthour reported there has been some good allocation decisions with respect to the new allocation decision to slow down the implementation which has left us overweight to U.S. Equities and underweight to Non-U.S. Equities. Hedge funds have been a positive contributor to performance as well as manager selection. MLPs have been a positive contribution.

Emerald is doing a decent job. Small caps have outperformed large caps. Kynikos Opportunity Fund International Limited is a manager that has a short bias. You're going to see some negative or weak performance from that particular manager in a rising equity market.

Bridgewater Pure Alpha Fund is underperforming its benchmark. They have a very large asset base and sometimes size can be the enemy of performance. It could prove to be challenging long-term to manage $130 billion or $140 billion in the hedge fund space.

The asset allocation was probably the largest contributor, especially the overweight to U.S. Equities and the underweight to Non-U.S. Hedge Funds. Non-U.S. Equity and Emerging in Opportunistic Fixed Income was probably the largest detractor from performance. The fixed income performance wasn't that bad, it's just a large percent of the portfolio. U.S. Equity and Real Assets were two of the largest contributors to positive performance. The asset allocation has been working quite well. To get close to the target allocation, it would probably take between nine and twelve months.

There's outperformance in seven of the nine categories of the Flash Report, which is good. The total fund outperformed by 71 basis points. Within U.S. Equities there was a -0.8 underperformance which is not a concern. Within Opportunistic Fixed Income, the portfolio is 27 basis points behind its benchmark. Everything else was a positive contributor in terms of its implementation. For manager performance, there were some challenges in midcap space but nothing to be alarmed about. It was a very good month.

Ms. Pankey commented that O'Shaughnessy Asset Management, LLC turned around.

<u>Agenda Item #6 – Flash Reports for the Opportunity Fund Managers for the Period ended February 2013</u>

Ms. Cherry reported on the Opportunity Funds. Both managers outperformed their targets for the month. The relative outperformance was attributable to the international equity portfolios for both managers.

For PFM, Cheswold Lane, performed well, outperforming its benchmark by 229 basis points. For FIS, Hanoverian outperformed its benchmark by 154 basis points.

Regarding submanagers that underperformed their targets, Herndon International, slightly underperformed in the PFM portfolio. There were no true themes associated with the relative underperformance for this submanager in the month. Mar Vista also trailed its benchmark in the month with Oracle and Occidental Petroleum being the primary detractors.

One submanager of note for FIS was Apex due to an overweight to Rackspace which was down 85 basis points for the month of March.

Agenda Item #7 – Chief Investment Officer's Report

Mr. Dubow asked Mr. Handa about the Philadelphia/Suburbs & Diversity Manager Report. He wanted to know about the decrease from December to March. Mr. Woolworth stated it was due to the change in ownership of Index manager Rhumbline.

Mr. Handa said staff meets with all the managers on a regular basis. They met with Geneva Capital Management at the end of March. Mr. Handa said the memo in the binder gives an update on the manager. Geneva Capital Management has generated about 24% since the Plan made an investment with the manager in October of 2011. Geneva Capital Management underperformed their respective benchmark by nearly 500 basis points. The primary detractor from relative performance was stock selection versus sector allocation.

Mr. Handa reported the Independence Fund was up 1.88%. The S & P 500 was up 3.56%, the Hedge Fund Index was up 1.42%. Since inception, the Independence Fund is up 9.5%, the S & P 500 is up 10.4%, the Hedge Fund Index is up 5.5%. The total amount of P & L the Independence fund has generated is about $4.1 million. It has been able to capture about 93% of the S & P while only exhibiting a fraction of the volatility.

Mr. Bielli wanted to know if the Independence Fund is characterized as a Hedge Fund and what index is compared to the hedge funds we have. Mr. Walthour answered that the Independence Fund is categorized as a hedge fund. He explained that the hedge funds manage in similar fashion to the Independence Fund and are compared to the Event Driven Index.

Mr. Bielli wanted to know the return of the Event Driven Index versus Mr. Handa's return. Mr. Handa replied the index is 5.57% and his return is 9.5%. The Independence Fund has significantly outperformed its benchmark for the year.

Mr. Handa stated he would email the updated memo, Independence Fund Performance, to the Board members. Mr. Handa noted the next Board Meeting had been changed from May 23, 2013 to May 22, 2013.

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At 10:08 p.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Ms. O'Leary seconded. All were in favor. There were no oppositions or abstentions. The motion passed.

At 10:09 p.m., Mr. Dubow 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. O'Leary seconded it. All were in favor. The motion passed.

At 10:10 p.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Albert made the motion. Ms. O'Leary seconded it. All were in favor. 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