THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
APRIL 26, 2012

There being a quorum, Paula Weiss, Esquire, Alternate Board Chair, opened the Investment Committee Meeting at 9:35 a.m., 16th Floor Board Conference Room, Two Penn Center Plaza.

Present:

Paula Weiss, Esquire, Alternate Board Chair
Brian Albert, Alternate
James Leonard, Esquire, Alternate
Celia O'Leary, Deputy Director of Human Resources (Alternate)
Ronald Stagliano, Employee Trustee
John A. Reilly, Employee Trustee
Carol G. Stukes, Employee Trustee
Veronica M. Pankey, 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
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:

Christopher DiFusco, Esquire- Divisional Deputy City Solicitor
Stephen Nesbitt – Cliffwater
Jacob Walthour – Cliffwater
Ashley Cooke - Cliffwater
Andrew Thomas – Local #22 – Firefighters
Donna Darby – Investment Unit
Carmen Heyward – Investment Unit
Chester Skaziak – Retiree
Wayne Pollock – Visitor
Chris Filley- Alliance Bernstein

Agenda Item #1 – Approval of April 26, 2012 Minutes

Ms. Weiss called the meeting to order and requested a motion to approve the Minutes of April 26, 2012. Mr. Albert made the motion to approve. Ms. O'Leary seconded. The motion passed.

Agenda Item #2 – GTS Directed Brokerage Memo

The GTS memo, dated March 21, 2012, addressed to Mr. Handa, provided a summary of some of the key trends and factors that were raised during GTS' recent discussions with Staff, with respect to the Board's directed brokerage policy. Mr. Handa advised that the Subcommittee was in the process of reviewing the matter.

Agenda Item #3 – Performance Report for the Period Ended March 31, 2012

Mr. Nesbitt opened by saying that Cliffwater's major agenda was working with Staff on the overall asset allocation, looking forward to whatever education and recommendations that they would be making for the next few months. He introduced Mr. Walthour, who, with Mr. Nesbitt, will be the Fund's primary account service representatives. Mr. Walthour will be handling most of the performance report along with Ashley Cooke, who will be working for Mr. Walthour and is responsible for client services.

Mr. Walthour provided a market overview summarizing that the net result was a very positive quarter for equity markets around the world. The S&P 500 was up 12%. Across the board, financial assets were positive. The Russell 3000 was up almost 13%. International market was up almost 11%. Fixed Income with low rates continued to struggle with some positive gains. Credit markets had positive gains. Hedge Funds performed positively, but not as well as some of the equity and credit markets. Commodities might continue to face head winds, going forward.

The equity market was the biggest injection to the performance of the Fund. After a difficult 2011, the equity markets rebounded strongly. The major regions, including the U.S., did relatively better than the emerging markets Large Cap stocks did better than Small Cap stocks.

Mr. Walthour said that Cliffwater was not seeing, going forward, a 12% gain per Quarter, but, going forward, the equity markets would continue to grind out positive results. Occasionally, there will be periods of consolidation and contractions, with the issues in Europe, the elections, will start to rattle confidence in financial markets, as well as the occasional mixed news, such as the coming elections in the United States.

The big winner (page 6) in the Fixed Income markets was the high yield universe. The Alternative Asset Class had positive results, but not as strong as the equity and credit markets. The overall HFRI Hedge Fund Weighted Index was up 5%. The HFRI Equity Hedge Index was the strongest, leading at 7.23%, followed by the HFRI Event Driven Index, a combination of Value Equities and Credit investments, up, 4.6%. Commodities lagged. REITs had positive appreciation, as well. The muted results were expected in a market environment where the equities markets were going up and Alternative markets will continue to lag that performance.

Mr. Walthour reported that the individual manager performance was positive, and 95% of active managers beat their index in the first Quarter of 2012. The Fund was firing on all cylinders. The exception was the overall asset allocation- which was being dragged, relative to the benchmark, in terms of the relative underperformance or returns of some of the Alternative Investments.

Mr. Nesbitt reported that the asset allocation target percentage allocation across the individual asset classes, both Domestic Equity, Non-U.S. Equity and Private Equity together, was showing that the Fund was slightly above the target in Domestic Equity, but below in the Non-U.S Equity. In Fixed Income, there was slight overweighting. The Fund was close to target on Real Estate and Private Equity, under allocated in Real Assets and Private Equity, and the cash position was at 2.7%.

The year-to-date and fiscal-year-to-date was showing Domestic Equity underperforming the benchmark. For fiscal year-to-date, the Fund was slightly under by 1.2%. Non-U.S. Equity outperformed over the long term. Fixed Income, for the Quarter was up 5%, well outperforming its benchmark. He noted that Private Equity, year-to-date, had a one Quarter lag performance, and catch-up would be seen during the next Quarter. It was more an accounting effect than a true market value effect. For long-term performance, over the five-year period, Private Equity outperformed at 7.09% and above the other asset classes. Real Estate, with the lag effect for the Quarter, was up 4.25%. The Opportunity Fund was up, 11%. Real Assets lagged at 1.95%. Hedge Funds were positive, up 3.56%, but underperformed the benchmark by 4.83%.

Overall, the Fund (page 9) returned 7.08% year-to-date and returned 2.12% fiscal year-to-date, underperforming the benchmark in both cases.

In terms of Domestic Equity (page 10) on the Large Cap Growth side, Rhumbline Index Fund tracking the index. In Large Cap Value, 12.33% total performance for the three months outperformed the benchmark. The total Large Cap Core was very close to the index. Overall, the total Large Cap Domestic outperformed the benchmark, just slightly. Total Mid Cap slightly outperformed for the Quarter. Small Cap Growth added value, at 16.64% against the benchmark of 13.28 for the Quarter. Small Cap outperformed the benchmark for the Quarter.

Non-U.S. Equity (page 12) was a good relative performer for the Fund. Emerging Markets, for the Quarter was up slightly, relative to the Emerging Markets Index. Total Equity, year-to-date, adding all the equity components, was a positive contributor, up 13.01 against the benchmark of 12.8. Fixed Income did well. Total Global Fixed Income, year-to-date, was 5% against the benchmark of 3.01% adding significantly in the Quarter. Private Equity was a lower performing asset class, attributable to the lag in valuation, but with very strong, long-term performance.

Mr. Nesbitt advised about Cliffwater's Alternative Investment diagnostics on the Private Equity partnerships, comparing each according to their vintage year, about which they will present at another meeting.

In terms of Opportunity Fund (page 14) asset class for the Quarter, it roughly matched the benchmark. Hedge Funds, individually, had positive returns, with a total of 3.56% for the Quarter, net of fees, underperforming the benchmark at 4.83. Overall, the Fund performed at 7.08% and was trailing the benchmark.

Mr. Nesbitt advised that Cliffwater's next project was to work with Staff to simplify the benchmarks.

Agenda Item #4 – Opportunity Fund Flash Reports for the Period Ended March 31, 2012

Ms. Cherry reported that both Opportunity Fund managers underperformed their respective targets. PFM by, approximately, -49 basis points, attributable mainly to the Domestic Equity submanagers..

For PFM's portfolio, there were three managers of note. Philadelphia Trust, MarVista, and GW Small Cap. An underweight in financial stocks was the main detractor from performance for Philadelphia Trust. For MarVista, an underweight to Apple, which was up 11% for the month hurt performance most. The manager held, about, 4% versus 7.5% for the benchmark. For G.W. Capital, there were two names that were down -13% and -16% each that detracted from performance in March.

Mr. Handa noted that for PFM, Nicholas was added. They were funded last month.

Ms. Cherry reported that FIS underperformed by, approximately, -15 basis points, and, again, this was attributable mainly to Domestic Equity. Martin Asset Management was the primary driver of the underperformance, down -105 basis points for the month. There were two names in particular, which negatively impacted relative performance, one down -12% and the other, by -11% for the month.

Agenda Item #5 – Chief Investment Officer's Report

Mr. Handa highlighted that in the month of March, Securities Lending income was $78,277, a decline of approximately $60,000 in income as a result of securities on loan being transitioned from State Street to JP Morgan. Staff anticipated temporary declines in lending income due to the transition and expects securities lending income to improve as JP Morgan begins to actively provide securities to borrowers. To off-set the temporary loss of income as part of the transition, Staff negotiated a very favorable revenue sharing split of 90% of income to the City and 10% of income to JP Morgan during the first year of operations. After the first year, income will be split 85/15 which is an improvement from State Street's revenue share of 80/20.

Mr. Handa said that Mr. Woolworth would talk about the MWDBE and Philadelphia based investments. He recalled that several trustees had asked about getting more granular details about the Fund's exposure to these managers, so Staff prepared a more comprehensive reporting template that attempts to break out as much information as possible going forward. Staff is always looking to provide opportunities for qualified managers that meet the Board's stated inclusionary goals.

Mr. Woolworth discussed Staff's report, which provided details of assets under management and the number of managers across categories of local, suburbs and diversity investment managers. Across all categories, the Plan has 41.1% of total assets being managed by diversity and local / suburb managers. When detailed separately, diversity managers represent 29.6% and local / suburbs managers represent 12.7%. He noted that manager statistics were not mutually exclusive, that there was overlap, as some managers would qualify as both diversity and local / suburbs. He added that the report would be broken out by the number of managers in each category.

Ms. O'Leary asked if Staff was able to provide a benchmark for the diversity managers that could provide a method of comparison with the diversity manager universe. Mr. Bielli indicated that Staff was able to get comparison statistics from the eVestment reporting system, which has a national database of investment managers, and based on this universe, diversity managers, as a group, represented approximately 13.4% of all managers.

Ms. Stukes noted that it was the first report and questioned if the Fund was competitive on a comparison basis when looking at the number of managers that invest the Fund's assets. She emphasized that without the Opportunity Fund's impact on reporting, the actual number of managers is somewhat anemic for the Core Fund.

Mr. Handa advised about the transition of custodians occurring next week and credited Mr. DiFusco and Mr. Woolworth for handling the difficult transfer of data.

Ms. Weiss requested a motion and second to Mr. DiFusco's request to attend the June Conference of the National Association of Public Pension Attorneys at the Convention Center. **Mr. Reilly made the motion. Mr. Stagliano seconded. The motion passed**.

Ms. Weiss said that the Board Meetings scheduled for May will be the 24th and June's meeting was changed to the 26th, Tuesday, from the 28th.

At 10:30 a.m., Ms. Weiss requested a motion to adjourn the Investment Committee Meeting. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

At 10:30 a.m., Ms. Weiss 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. Albert made the motion. Mr. Stagliano seconded. The motion passed.

At 10:30 a.m., Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mr. Stagliano made the motion. Mr. Reilly seconded. The motion passed.

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

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Paula Weiss, Esquire
Alternate Board Chair

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APRIL 26, 2012