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

MEETING MINUTES

There being a quorum, Rob Dubow, Board Chair, called the Investment Committee Meeting to order at 9:42 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16th Floor.

Present:

Rob Dubow, Finance Director, Board Chair
Paula Weiss, Esquire, Alternate Board Chair, Deputy Director of Finance
Alan Butkovitz, Esquire, City Controller
James P. 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
Sumit Handa, Esquire, Chief Investment Officer
Brad Woolworth, Deputy Chief Investment Office
Christopher DiFusco, Esquire, Director of Investments
John Foulkes, Esquire, Investment Officer
Dominique A. Cherry, Investment Officer
Daniel Falkowski, Investment Officer

Also Attending:

Harvey Rice, Esquire, Alternate, First Deputy City Controller
Ellen Berkowitz, Esquire, Deputy City Solicitor
Daina Stanford, Administrative Assistant
Donna Darby, Clerk-Stenographer II
Carmen Heyward, Clerk-Stenographer II
Jacob Walthour, Cliffwater
Raymond Jackson, Franklin Park
Chester Skaziak, Retiree, Philadelphia Firefighter Retiree
Steve Leming, Penn Capital
Will Greene, Loop Capital

Agenda Item #1 – Approval of Minutes of June 27, 2013

Mr. Dubow requested a motion to approve the Minutes of June 27, 2013. Mr. Albert made the motion. Mr. Stagliano seconded. The motion passed.

Agenda Item #2 – Additional Capital Recommendation – Independence Fund

Mr. Walthour reviewed from Cliffwater's one-year update at the last Board meeting how the Independence Fund had done a good job of outperforming the index and preserving capital during periods of market volatility. The Independence Fund was seen as a hedge to adversity on the portfolio. After the one-year performance and the operational infrastructure was in place and working well, and Cliffwater had established a regular regimen of looking at the portfolio from a position level and having communication with the portfolio manager on a monthly basis, they concluded that the $40.0 million hedge to adversity on a $4.0 billion portfolio was too small. That was the reason for the recommendation that the Board approve an additional $150.0 million investment into the size of the Independence Fund to have a meaningful impact on the overall portfolio performance.

The Board members talked with Mr. Walthour and Mr. Handa about how the increase would look in the portfolio.

Mrs. Stukes-Baylor and Ms. Pankey expressed their concerns about unresolved actions of the Board prior to the request for the recommendation for additional money into the Independence Fund. Ms. Pankey requested an update on the status of the proposal to change the watch system. Mrs. Stukes-Baylor requested that a Subcommittee be formed to address the issues.

Mr. Dubow called for volunteers for a watch system subcommittee. Ms. Weiss, Mr. Rice and Mr. Thomas volunteered.

Mr. Bielli updated with Ms. Pankey that during the last meeting, in her absence, the watch system was disbanded and everyone was taken off of watch in anticipation of creating a new watch system. It was in the works and would be based on a different type of analysis based on the subcommittee. They will create it.

Ms. Pankey asked for clarity on the new system. Mr. Dubow said it would include the monitoring, including the guidelines for increasing, decreasing and terminating.

Mr. Dubow requested a motion. Mr. Stagliano made the motion to approve the recommendation by Cliffwater to invest up to $150.0 million in the internally managed Independence Fund. Mr. Albert seconded. Mr. Dubow requested a Board vote. Ms. Pankey was opposed. Mrs. Stukes-Baylor abstained. The motion passed.

Agenda Item #3 – Emerging Markets Manager Search – Subcommittee Recommendation

Mr. Falkowski reported that the March 2012 Emerging Market RFP was reissued December 28, 2012, due to Cliffwater's asset allocation study. The search was initiated due to the underperformance of the two active Emerging Market managers, Eaton Vance and Trilogy Global Advisors, L.P., and their termination. Staff received 28 submissions from 26 different firms and in conjunction with Cliffwater, looked for performance consistency and organizational stability. They narrowed the search to Axiom International Investors, LLC, and Brandes to present to the Subcommittee.

Following the presentations by Axiom and Brandes on June 20, 2013, the Subcommittee decided to vote on a recommendation at a subsequent Subcommittee meeting.

On July 15, 2013 the Subcommittee reconvened and voted to recommend allocating $25.0 million to Brandes and to leave the remainder of the assets allocated for the search with passive manager, Rhumbline. Currently, Rhumbline has $197.0 million in passive money for Emerging Markets.

Mr. Handa added that this was subject to contract negotiation and approval by the Board.

Mr. Stagliano noted that Staff expected Brandes to beat the index.

Mr. Dubow asked Mr. Falkowski if they had been doing that. He said that they had been a little volatile. A lot of their outperformance came from 2009, where they significantly beat the benchmark by over 30%. The Board should be aware that there was a significant amount of volatility with Brandes. They are more of a Value manager. Axiom was more of a Growth manager.

Mr. Dubow asked Mr. Falkowski what made them attractive. Mr. Falkowski said that, overall, both performances had been good on an absolute and risk-adjusted basis. Their Sharpe ratios were in the first quartile, and they demonstrated the ability to outperform over the long term.

Mrs. Stukes-Baylor said that the Subcommittee chose Brandes, because they were willing to work with the Board, whereas Axiom was not. She expressed concern when managers dictated to the Board as to what they will or will not do.

Mr. Falkowski clarified that with rising interest rates perhaps these managers would not be good for Emerging Markets. Both of the managers outperformed the most in bull markets and had not always protected money in down markets. From a general standpoint, if interest rates did rise, they would not generate a turn of outperformance if Emerging Markets continued to rise.

Mr. Bielli noted that in 2009 there was a group that presented, and it was a better bull market for Emerging Markets. He asked Mr. Falkowski how the managers performed in down markets, as to what they did versus the index. He said that in 2008, Brandes outperformed by about 6%. In 2011, they were a little closer to the benchmark.

Mr. Dubow noted that they were a little behind in 2013.

Mr. Stagliano noted that the Board would be paying a fee larger than they paid the index manager and asked if it was worth it. Mr. Bielli noted that it was 1% versus, about 15 basis points.

Mr. Bielli asked Mr. Falkowski if Brandes would consider lower fees. He said they were willing to negotiate the fees. He did not know how much more they would be willing to come down. They might be willing to come down to 95 basis points. It was not his thought that it would be a huge difference, but at least, they were willing to have the dialogue.

Mr. Bielli asked if 95 basis points versus 15 basis points would bring more to the table. Mr. Falkowski said that Staff's original recommendation was to keep it passively managed. At the same time, he did not think either of the options was bad.

Mr. Leonard said that he had a concern about interest rates, as to whether it was the right time. He asked if things had changed. He asked Mr. Handa's view.

Mr. Handa shared his opinion, saying that in the last decade, where interest rates were historically low, capital went to other countries. Emerging Markets were the beneficiaries. In the last week of April and first week of May, the Treasury markets started to bottom out and rally. The bottom was at 1.60 on the ten-year bond. It was at 2.60 this morning, a massive move on the ten-year. The U.S. dollar, which had been weak over the ten-year period, bottomed out and began to strengthen. When the U.S. dollar strengthened, Emerging Markets became less attractive. As interest rates began to rise, meaning value-added, the opportunity set in Emerging Markets decreased.

He reminded that the advantage of Emerging Markets - labor arbitrage - over the last decade diminished. The ability to find cheap assets was not as it was. It did not mean that the Board should never invest in Emerging Markets, but be aware of the fact that the arbitrage that existed five or ten years ago had started to diminish. He advised that his discussion with Mr. Walthour was related to not knowing the type of return the Board would get in Emerging Markets going forward. He noted that, excluding China, growth in the global world was slowing down in places like India and Brazil. So, being mindful of what type of return was expected from investments in Emerging Markets begged the question of whether or not they would be able to get it in the long-only active strategy.

He noted that there were pockets of strength in the frontier markets. Growth was relative.

Mr. Dubow requested a motion. Mr. Leonard made the motion not to invest in the new Emerging manager, and to keep the money with Rhumbline. Mr. Butkovitz seconded. Mr. Dubow requested a vote. Ms. Pankey was opposed. There were no abstentions. The motion passed.

Agenda Item #4 – Franklin Park, LLC 4th Quarter 2012 Private Markets Report and Staff's 1st Half 2013 Private Markets Update

Mr. Jackson reported on overall Fund performance since inception, and, as of December 31, 2012. The overall portfolio performance since inception was showing that $1.16 billion was committed to Private Markets, with about $1.04 billion contributed. Since inception the portfolio generated a total value of 1.4x. This is the ratio of the sum of $918.4 million in distributed capital coming back to the fund plus $535.4 million in remaining value, total $1.45 billion, divided by contributed capital of $1.04 billion.

Mr. Jackson's report did not talk about vintage-year performance, when the funds started investing, for 2008 to 2011. It was tough to draw significant conclusions for performance in those vintage years, because the funds were early in their life. Investments had just been made. The managers did not have a chance to work with the companies yet. A lot of time, the investments were held at cost. It was tough to draw correlations about performance.

Mr. Dubow asked Mr. Jackson how many years, and what was a good timeframe to judge. He answered that the performance measurement began after five years.

He reported that the bulk of the Private Markets portfolio was for vintage years 2006 to 2008, at about 40% committed capital and currently valued at 63%. Net IRR performance was well above the median benchmarks, and slightly below the top quartile benchmarks. Of note, 2006 was a bad year for the industry in general. Most of that vintage's funds invested right before the crisis and paid high prices and did not do well. Performance for the industry lagged the other years. The Fund was at 7.7% net IRR - above the median but slightly below the top quartile benchmark. For 2006 to 2007, most of the funds in the middle category did well. For both years, Franklin Park expected upside protection from the group. There was a chance of a few funds moving into the top category as investments were worked by the manager and realized. They were monitoring them closely and, in some of the cases, expected them to improve to at least above median from where they were.

Mr. Dubow asked Mr. Jackson if there were ones that he thought would not improve, about which Franklin Park had concerns.

Mr. Jackson said that the exception for the 2008 vintage year was Relativity. They underperformed. They restructured and the investment period was suspended. They were limited to the amount of capital that they could call.

Mr. Woolworth informed that Staff was planning to limit and not add capital.

Ms. Weiss asked Mr. Jackson about Mason Wells. He said it was still an early 2010 vintage, having done four to five deals, with two investments performing below plan and written down by about 2%, but were not in danger of going bankrupt. The performance that was posted had been disappointing.

Mr. Woolworth updated about Staff and Franklin Park's telephone conversation related to Fenway II, a 1999 vintage fund, an investment of 13 years. The City was not paying management fees. It is holding in escrow about $9.0 million. They have a $27.0 million clawback owed to all of their investors. Staff and Franklin Park held calls with other investors on the advisory board to address the fact that we are holding the escrow, in trying to get the money released.

Mr. Bielli asked Mr. Woolworth at what point, if they did not get an agreement, would they get the Law Department on it. He answered that there would have to be no cooperation. Assuming there would be no cooperation, they would call off all investments.

Mr. Bielli asked Mr. Woolworth about the status of payouts over the last year, the whole point of Private Equity, and if the Board needed more investments to replenish the Fund. He reported from Staff's report, the breakout of all of the capital calls and distributions in Private Equity that were made through June 28th or June 30th. There had been a lot of positive, meaning that on a net basis they received more cash than contributed. There had been little contributions in 2013. The Fund needed to allocate more to Private Equity.

Mr. Bielli asked Mr. Woolworth what part of the chart was the Fund's reserves, that, at some point, in five to ten years, they would get a payout. He cited Franklin Park's report (page 21) showing total unfunded commitment of $161 million. That used to be over $400 million in unfunded commitment versus contributed capital of $1 billion. The unfunded was getting low, and they would want to commit capital, because they could run through it in three to four years with zero unfunded commitment, or zero dollars that they would be able to pull.

Mr. Bielli talked about the Fund's five-year expectation, with the concern of getting to 2020 and having two to three consecutive years with no payout in Private Equity. They wanted to make sure that they were funding at a steady ratio to get continual payout year after year, month after month and quarter after quarter.

He requested a visual chart to show whether they were low or high on commitments that would show where they needed to go.

Mr. Handa said Staff made a significant Private Market Equity investment earlier this year, with Levine Leichtman, at $50 million, and one coming up for Board approval next month. They were starting to make allocations and recommendations to the Board, and they were working on several things right now. Staff would be providing a pacing analysis in August to show exactly how many dollars they needed to contribute.

Mr. Woolworth reported that cash flows had been very strong. They received more money back than going out of the door. They were on pace to match last year's net of $94.0 million coming back to the City. In 2008 to 2009, there were significant draw downs of $100.0 million net negative for those years. They had been making it up significantly last year, at $42.0 million. It was positive so far for the year and on track to match those numbers, again, to make sure that they met those commitments.

<u>Agenda Item #5 – Cliffwater's 4th Quarter 2012 Real Estate Report – Staff's 1st Half 2013 Real Estate Update</u>

Mr. Walthour said the sustained economic recovery in the U.S. led to marginal gains in each of the core areas of real estate, with increases in value appreciation and income through rental growth. We are now looking at situations where capitalization rates are approaching historic lows, specifically in the West, South, and in areas like New York City, Dallas or Houston. These cities were showing more recovery than other places, with a positive backdrop in real estate. It did not translate into good news for the portfolio related to the fact that, of the 13 active partnerships, a lot of them had vintage years of 2006 and 2007. In looking at the schedule of significant events in the report, there was some disposition activity of selling assets below par.

Mr. Bielli noted from Cliffwater's report on the Fund benchmark of 7.66% since inception, with the Fund return at -2.04. It was a 9.5 point swing, which was brutal. He asked Mr. Walthour what could be done to salvage the Real Estate portfolio.

Mr. Walthour said at this point, the only option would be to pull out from under the portfolio. Another option would be to look at having a potential secondary sale to another institutional investor, where the Board would take a haircut on the investment and package the good with the bad.

Mr. Dubow asked Mr. Walthour if it would make sense for the Board to consider a secondary sale. Mr. Walthour said that the legacy investments, to some extent, would hold the portfolio back. It might mean that some of the managers might hold the assets longer than they should. The current holdings would result in a further drag on the portfolio. There were some people that were of the mind that if something was not working to get out of it and make fresh investments with GPs that did not have legacy portfolios as the Board's portfolio, which prevented them from having a lot of value going forward.

Mr. Bielli asked Mr. Walthour to work with Staff and provide an analysis to the Board as to the cost benefit of doing that. The benefit of doing it was that they would get a fresh real estate portfolio going forward.

Mr. Walthour said that the Board made good Real Estate-related investments away from Private Real Estate, though it had not come through, yet. REITs was a good, strategic move, as were some of the mortgage investments that benefited from the housing recovery and were more liquid and had the potential to deliver good risk-adjusted return, better than the Fund had received thus far.

Mr. Handa added that the Board made some good sales and top-ticked in the sale of Core Real Estate in December. They sold about $80 million worth of Core Real Estate when their interest rates were low. It was a good move.

Mr. Bielli said that the Board's former Real Estate consultant said that they were locked into these partnerships. Maybe the Law Department could look at that even if they had to sue them. He said that the Fund's overall return was close to the assumption rate since inception, and they would be above it if it was not for Real Estate. It was an integral part of the Board's portfolio and very important. He asked Mr. Walthour to take a look at that.

Mr. Walthour reported that as of December 31, contributions totaled $235.0 million and total distributions were about $30.0 million. The fair market value remaining in the portfolio was about $187.0 million. The net IRR was -2.04% with a ratio of Total Value to Paid-In Capital of about .92. Anything over one meant that the Board was making money on the portfolio. The activity for the Fourth Quarter was showing that they made another $3.0 million in contributions and received $4.3 million in distributions. The fair market value in the portfolio was increased by about $5.9 million, so trending the right direction.

Mr. Foulkes presented end of year numbers as of December 31, 2012, and a half-year update as of June 30, 2013. The fair value was down from $187 million to $160 million. The June numbers were estimates, because the June 30th reports had not been received. The estimates were based on March 31 GP reports, plus contributions and distributions.

Staff's report was showing the allocation and the fair value. The unfunded commitment was 4.5% of the total fund. There was another change in Market Value from December 31, 2012, to June 30, 2013, as an increase of $26.5 million, but $23.6 of that was explained by redeeming out of Invesco and JP Morgan and making investments in 400 Capital and Axonic.

Mr. Foulkes said there were three managers that were active, Almanac VI, LEM III and Lone Star Real Estate II. They were recent funds and active, in terms of still making investments.

Mr. Walthour updated about significant partnership property sale events at Beacon Capital, Funds IV and V, but at less than par for Fund IV. Colony Partners distributed proceeds from bank shares sold at a profit, as well as from a private hospital that they owned in Switzerland, both positive developments. The J.P. Morgan Strategic Property Fund, which the Board exited, had six asset sales. There was a fair amount of distribution activity going on that reflected the fact that there was a decent fund raising environment. People were still putting money to work in real estate, but at cap rates that were significantly lower than they were historically. REITs were earning the Fund, from a 3.5 to 4.5 percent range, with liquidity. There was more fluctuation in the valuations, but more of an attractive yield relative to the Private Real Estate. Mesa West had done very well. The portfolio increased by 19.12%. Mesa West is a debt fund, and lending to real estate operations did not mean that they owned them. Their fund had done significantly well, as some people paid their loans outright. The vintage year 2006 and 2007 partnership funds were still struggling. The others were at single-digit returns, with a couple of outsized returns in the double-digits.

The next step was to explore what potential haircut the Board would have to absorb to do a secondary sale to free up the assets to do more productive things.

Agenda Item #6 – Equity and Fixed Income Manager Updates

Mr. Falkowski provided an update on Geneva Capital, Fisher Investments, Barings Asset Management and Allianz Convertibles.

He reported that Geneva, the Fund's U.S. Mid Cap Growth manager, had been challenged since the Board hired them. For the Quarter they lost by -28 basis points, underperforming the benchmark by about 300 basis points. Their strategies focused on quality companies that generated strong earnings. The companies that had low return equity were the best performers. They had protected capital in down markets as the area of their outperformance. Since they were hired bull markets were strong. They had been able to keep up with bull markets, but in the down markets he mentioned, it had been more difficult. Versus the benchmark, they were a little volatile on a year-to-year basis over seven years, averaging a differential of 620 basis points. It was not unusual to see these fluctuations versus the benchmark. If there was market correction, they should hold up well. If not, Staff will be concerned.

Staff met with them several times over the last year. There were no changes to the firm or in the process. The companies where they invest were original. Hopefully, it will be up soon. Staff is watching.

Mr. Stagliano asked Mr. Falkowski if there was something better that they could add since inception, almost 5%. He said that it would be sensible to give them a little more time.

The Board decided to issue an RFP for U.S. Mid-Cap Growth.

Fisher Investments, the Fund's U.S. Small Cap Value manager, had a good Quarter and good performance year-to-date. Performance since inception was at 150 basis points, and they were above median since inception.

He informed that their Vice Chairman left the firm, effective last month. He will be leaving the industry, and another person will be named.

Barings, the Fund's EAFE Equity manager, until 3rd Quarter of last year had done a good job for the Board. In the 4th Quarter, they underperformed by 650 basis points. Their performance improved during the First Quarter. The manager suffered during the 2nd Quarter. Since Staff's conference call with the manager on Monday, the portfolio companies had rallied and performance was a little better month-to-date. Overall, Barings is a strong manager. For now, Staff will continue to monitor them, keep talking with them to follow them closely.

At Allianz, the Fund's U.S. Convertible manager, the portfolio manager is in command of all of the managers in the portfolio. They performed above the benchmark since inception by 80 basis points, putting them in the 1st quartile. Mr. Falkowski noted that it was hard for active managers to outperform with the strategy. Staff had no concerns, in terms of this manager.

Agenda Item #7 – Flash Report for the Period Ended June 2013

Mr. Walthour reported that for the month of June the markets decided to take some of their gain back. There was red ink across the board in June.

There was negative performance in equities, fixed credit, both investment grade and credit, as well as some of the alternative classes. MLPs were spared. This was the recurring theme, that when the markets experience risk-off, the U.S., has done better than overseas markets. Emerging markets suffered from withdrawal of capital. In Fixed

Income markets, the high yield markets sold off significantly. The Barclays Aggregate sold off to the tune of 1.5%. The J.P Morgan Emerging Markets Bond Index was off by 5%. They were good moves for one month. Hedge Funds were down 1.3% for the month. Commodities were off by 4.7%. REITs were off by about 1.7%.

Total Fund performance, pending final numbers, was down 1.57 for the month versus the Total Fund benchmark, down 1.41 and even with the benchmark. Performance for the fiscal year was up by 12%. It was a little above the benchmark. It was a good return for the fiscal year, given the Fund's actuarial assumption.

The top performing manager for the month was in the MLP space. A couple of Equity managers got out good performance in June, despite the overall negative markets. Emerging Markets, both Equities and Fixed Income led the portfolio down, as well as some of the Opportunistic Fixed Income portfolios, where there was more credit risk exposure. Year-to-date, the best performing managers were the Board's MLPs, as well as Emerald and O'Shaughnessy.

The worst performance was the Emerging Market exposure as well as some of the Fixed Income managers. He recalled the discussion in the course of the year, that Brandywine did well, but a lot the performance had a riskier nature to it. It was seen where some of the riskier fixed asset classes get sold off more than the Investment Grade Fixed Asset classes.

There were still discrepancies in the asset allocation. The Fund was moving closer toward the model benchmark. That slow march toward the new asset allocation had been a tremendous help to the portfolio. When the asset allocation was above the new targets, the Fund was seen as moving faster. He recalled that Mr. Handa said move slower, and it benefited. As U.S. Equities, with an overweight allocation, was the top asset class in the fiscal year. Fixed Income was a good performing asset class, as well. There was more money in U.S. Equity than in Non-U.S. Equities, which were the worst performers.

For excess return, there was a significant amount of red ink for the month. There were a couple of bright spots where managers outperformed the index, but the overall numbers were lower. Within the Non-U.S. Equity Developed markets, the EAFE managers outperformed the index. In Non-U.S. Equity Emerging, ESG continued to do a good job. It helped the index. In other places, managers could not keep up with their benchmark in a negative market environment. It contributed to the overall portfolio underperforming the benchmark.

Mr. Walthour did not highlight any specific manager performance. There was nothing significant to the benchmark. He recalled the earlier conversation about emerging markets, and whether or not to go passive versus active. He highlighted that ESG, an Emerging Markets Hedge fund, delivered performance consistently in negative environments. It demonstrated that in that particular segment of the market, they found a manager, but the manager had the ability to go long and short. That was the reason that they were able to add a tremendous amount of value. It was more difficult with managers that had a long-only skill set.

He suggested that the Board think about the emerging manager asset class in terms of another corresponding manager that had the ability to go both long and short and benefit from some of the negative performance, as well as capture some of the upside.

Within the Hedge Fund portfolio, performance was as expected. Kynikos continued to put up negative numbers. They are a hedge in the portfolio, however it was expected that they would deliver better performance.

In the Hedge Fund portfolio, the Board previously voted to redeem half of the investment in Regiment. Half of the funds were received. It was interesting that the manager experienced $1.2 billion in redemptions during the redemption period.

Agenda Item #8 – Flash Reports for the Opportunity Fund Managers for the Period Ended June 2013

Ms. Cherry provided the Opportunity Fund report for the month of June, where both managers, gross of fees, underperformed their respective targets for the Quarter. In terms of significant underperformance, there were two submanagers for PFM, Philadelphia Trust and GW Capital Small Cap.

Mr. Dubow noted that the underperformance was in whatever period they looked. Ms. Cherry said that it was for the month of June, and it was the case with many of the submanagers. Staff was in the process of doing the review, overall, for the Opportunity Fund, and they would be back in August with recommendations on the Opportunity Fund, overall. That being said, she did not know if the Board wanted to go through the submanagers.

She noted a personnel change at FIS that Staff felt was potentially significant. Mr. Yasin Bentiss left the firm. He was one of the lead research analysts Staff was waiting for additional information from FIS about his role on the investment committee as well as his role as Assistant V.P. of Manager Research. He was a research analyst on the Non-U.S side. He took a new position at PNC Advisors. Staff was informed of his departure last week.

Agenda Item #9 – 1st Quarter 2013 Directed Commissions Report

Mr. Falkowski reported that for the Quarter, on the local minority brokerage side, the Funds' managers directed 30% of their trades to local, minority or women-owned brokerage firms.

The Commission Recapture Fund generated 21% of their trades to Commission Recapture broker, BNY. The total amount recaptured for the Quarter was a little over $26,000, an increase of 52% from the previous Quarter. It was 15% last Quarter.

Agenda Item #10 – Chief Investment Officer's Report

Mr. Handa reported that Securities Lending was lower for June than last month. It was $1.27 million for the fiscal year.

He noted that the Quality "D" reduction was significant, in that in 2011, it was $2.1 million. It was, currently, at a $1.6 million.

He advised that the Diversity Manager report was provided with a fee breakout and with the percentages.

Mr. Bielli recalled Mr. Rice's question to him about the information on the fees, and it posed concern as to whether or not the information was telling how the fees were reduced during the last fiscal year.

Mr. Handa talked about the fiscal year ending on June 30. That was not a normal day of trading, because of a 1.5% swing. The Fund's assets had grown significantly over the last year at $500 million. More specifically, while the assets had grown, the fees had gone down, a little over 22% over the same period. It was an enormous move in increasing assets and, from an expense ratio perspective, bringing down our fees at the same time. Mr. Handa attributed it to the Board allowing Staff and Legal to negotiate all contracts. Everything was negotiable, and Staff had been tough with everyone. The fees had come down and would continue into the future.

Mr. Bielli noted that Mr. DiFusco, Mr. Leonard and Ms. Mastrobuoni worked hard on the negotiations and got good results. It was a complete team effort. They thanked the Board for allowing them to do that. The fees were as low as they were in 2007, with rising assets. It was good work by everybody.

Mr. Rice requested that Mr. Handa put it in dollar amounts that would show the amount that they saved. Mr. Bielli said about $10 million at five million per year.

Mr. Handa shared an article related to the Board's first investment in mortgages. The article was published after the last Board meeting and was about the latest developments in the mortgage market. His focus was how the Board would take advantage of some of things that were happening.

Mr. Dubow asked Mr. Handa what it would mean, in terms of the action that he will take in the next couple of months. He responded, not much, but they were new securities that were being created by Fannie Mae and Freddie Mac. He shared that the Federal Housing Administration requested that Fannie Mae and Freddie Mac decrease the amount of their securities on the books by $30.0 billion, and $22.0 billion was issued at the second week of July.

He said that he met with Axonic last week, and they were in that time frame. They were attractive securities. Staff will be participating in that market. They would see securities taken off of the books of Fannie Mae and Freddie Mac and moving into the private sector. The Board's two managers, respectively, would be active in that. The securities were mispriced. He recalled that when 400 Capital presented to the Board, it was described as a real opportunity set.

Mr. Handa said that the August Board meeting would be on Wednesday, August 21, 2013.

Mr. Dubow asked if there was new business or questions.

At 11:19 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 11:19 a.m., Mr. Dubow called into session the full Board of Pensions and Retirement and requested a motion to confirm all actions taken at both the Deferred Compensation and the Investment Committee Meetings. Mr. Stagliano made the motion. Mr. Albert seconded. The motion passed.

At 11:19 a.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement. 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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Rob Dubow, Finance Director
Board Chair