THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
AUGUST 30, 2012

MEETING MINUTES

There being a quorum, Paula Weiss, Alternate Board Chair, opened the Investment Committee Meeting at 10:11 a.m., 16th Floor Board Conference Room, Two Penn Center Plaza.

Present:

Paula Weiss, Esquire, Deputy Finance Director, Alternate Board Chair
Alan Butkovitz, Esquire, City Controller
Harvey Rice, Esquire, Alternate, First Deputy City Controller
Brian Albert, Alternate
James Leonard, Esquire, Alternate
Celia O'Leary, Alternate, Deputy Director of Human Resources
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, Esquire
Deputy Chief Investment Officer:	Rhonda McNavish
Investment Officer:	John Foulkes, Esquire
Investment Officer:	Brad Woolworth
Investment Associate:	Dominique A. Cherry
Investment Officer:	Daniel Falkowski

Also Attending:

Robert O'Donnell, O'Donnell Associates
Christopher DiFusco, Esquire, Divisional Deputy City Solicitor
Katherine Mastrobuoni, Esquire, Law Department
Adam Cohen, Caspian
Mina Kim, Caspian
Jake Walthour, Cliffwater

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Ashley Cooke, Cliffwater
Bradley Atkins, Franklin Park
Raymond Jackson, Franklin Park
Arlene Sawyer, Investments
Donna Darby, Investments
Carmen Heyward, Investments
Andrew Thomas, Local #22, Firefighter
Chester Skaziak, Retiree, Firefighter
Will Greene, Loop Capital
Michael Banks, Greentree

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INVESTMENT COMMITTEE MEETING
AUGUST 30, 2012

The Investment Committee began at 10:11 a.m. on August 30, 2012.

Agenda item #1 – Approval of the Minutes – July 26, 2012

Ms. McNavish discussed two substantive changes to the July 26, 2012 Investment Committee Meeting Minutes. First, page nine, should read that May 1 was the actual inception date for the Independence Fund as opposed to the correct inception date for the Independence Fund. Second, page nine should read that Ms. Stukes requested a quarterly report about the Independence Fund, not Ms. Pankey.

Mr. Rice made the motion to approve the minutes, Ms. O'Leary seconded. The motion passed.

EXECUTIVE SESSION STARTED AT 11:15 A.M. AND ENDED AT 11:45 A.M.

Ms. Weiss stated that the purpose of the Executive Session was to discuss legal issues.

Representatives from Caspian were invited into the Executive Session. The Board moved to Agenda Item #3.

Agenda item #3 – General Consultant Performance Report for the Second Quarter 2012 and Flash Report for the Period ended July 2012

Mr. Walthour stated that the Fund's outperformance for the quarter relative to the benchmark had to do with current asset allocations. He pointed out that active managers underperformed and that's just not a monthly or quarterly phenomenon in the case of some of the major asset allocation categories. Mr. Walthour provided a review of the markets.

For the quarter, the excess return relative to the benchmark was 72 basis points and that meant basically that for the fiscal year, the Fund outperformed by 6 basis points. Mr. Walthour pointed out that Real estate and Private Equity are reported on a lag basis and that performance will look a little better once we tie up all the numbers in the fiscal year. The Fund was up roughly, as of June 30, five percent for the calendar year.

Mr. Walthour pointed out that he does not necessarily think that the underperformance of managers within public equities reflects on the skill of each and every manager that has been selected, but rather it partially reflects on this environment that we're in where stock picking hasn't added much value because of the nature of today's market from a structured perspective, where you have ETFs and index in sort of abundance. There's low dispersion among stocks within sectors and high correlation among stocks within sectors, which makes it difficult to pick winners and losers. Mr. Walthour pointed out that to some extent it's been a difficult environment for a lot of active managers.

Mr. Walthour suggested that we need to think about whether or not that environment would be a sustained environment and whether or not this Board would be compensated for the level of fees that it's paying to active managers. Mr. Walthour suggested that the numbers don't represent a small issue; they represent a larger issue when you think about the total size of the Plan and the underperformance of asset categories. They are some of the largest asset categories that are in the Plan. He pointed out that it does not necessarily mean that the Fund would have to change managers, but rather suggested that maybe we think long and hard about the incentive structure that some of the managers have.

Mr. Walthour summarized the quarter by stating that the Fund's performance did well because of the asset allocation, but pointed out that it could have done better if managers' beat their benchmarks. He suggested that we are at the point where we need to start thinking about what to do about performance at the manager level.

Mr. Walthour pointed out that July was a far more positive month. The S&P 500 Index was up almost 1.4% in the month of July. The Russell 3000 was up almost 100 basis points. Across the board, every area was up in the month of July. August is looking like a decent month as well. The fiscal year is getting off to a pretty good start.

Mr. Butkovitz asked Mr. Walthour if the prevailing doctrine has changed and if stock picking was going to be programmed.

Mr. Walthour responded that markets go through cycles where certain factors matter more during good economic times. Generally people are far more focused on the fundamentals of an individual company. Mr. Walthour stated that he does think there's a doctrine that's changing, the doctrine is that people prefer to be in instruments that are relatively safer than they do in instruments that they view to be relatively more risky. He stated that he thinks people are far more comfortable with fixed income today because they're earning a coupon versus being in stocks where they could be down 7% in one month, and up 2 or 3% the next month People are getting far more comfortable with the relative safety of fixed income. In regards to the stock market, he stated that people are no longer making the decision to pick one company, but rather making the decision whether they want to be in the market at all.

Agenda Item #4 – Equity Manager Updates

Mr. Falkowski noted that although this is the quarter that we would typically review international managers, domestic equity manager Aronson, Johnson, Ortiz is included. The reason for this is that Staff is recommending a downgrade in their status to Watch -1 which is mainly due to performance issues. Looking at the trailing three year number, they are behind the benchmark and also rank in the third quartile amongst their peer universe on a trailing five and seven year basis. Despite favorable since inception returns, the last several quarters have diminished overall

Performance. Mr. Falkowski explained that recently certain aspects of Aronson's model have not worked as expected. During the last quarter, their value model had contributed to underperformance.

There were two personnel departures at Barings Asset Management. The two changes were for members within their strategic policy group, which is responsible for the top down decision making for all portfolios. The actual team that is responsible for the day to day management of our portfolio has not been affected. Staff's opinion is that it does not materially affect their ability to manage assets for the board.

Agenda item #5 – Private Markets 1st Quarter 2012 Portfolio Report and 2nd Quarter 2012 Update

Bradley Atkins presented the consultant's Private Markets report for the quarter ending March 31, 2012. The current Private Markets portfolio is valued at five hundred sixty-seven million and is weighted heavily towards corporate finance strategies representing 79.7% of all funds. The remaining sub-asset class strategies of Private Debt and Venture Capital represent 11.2% and 9.1%, respectively. Looking at the returns, there has been strong performance with the corporate finance and private debt focused funds, but unfavorable results with venture capital focused strategies. In 2003, the Private Market's portfolio was significantly more concentrated in venture capital partnerships with more than 20% invested in this strategy. While still allowing for exposure to the venture capital sub-asset class, and given Franklin Park's negative outlook for losses and returns within Venture Capital, exposure to this strategy has been reduced overtime to the current 9% today.

When breaking out performance by each underlying fund manager, and reviewing the last ten years, the Private Markets portfolio has generated strong performance fairly consistently across the board by each manager, with only a few exceptions. For the 2006 vintage funds, there are a couple of large buyout manager commitments, in particular Blackstone V, Kohlberg V and KKR 2006 that have not fared as well as would normally be expected. This is the result of the underlying deals being purchased at high prices in the credit bubble during this time period. This has produced single digit returns for these managers.

European based investments among the large buyout firms in the portfolio have also struggled. Carlyle European Partners III, L.P. and other Euro currency exposed deals among U.S. based firms have experienced meaningful impairments. However, outside of these challenged partnerships, the remaining buyout funds in the portfolio have generally produced good results. One exception is the performance of Relativity Capital, which has not fared well despite its favorable vintage year. Franklin Park and Staff are currently in discussions with the manager to help improve performance.

Brad Woolworth presented Staff's Private Markets report for the quarter ending June 30, 2012. Two large private equity firms in CPBPR's portfolio completed initial public offerings. One is Oaktree Capital which CPBPR is an investor in three of the firm's funds and also the Carlyle Group which CPBPR is an investor in the firm's European focused fund. Carlyle did their IPO in May; Oaktree did their IPO in April. Looking at the historical performance of these private equity firm IPOs, they have not typically been great for investors. CPBPR is not investor in the stock. It's been an interesting change in the market. Oaktree priced their stock in the upper company value range of the IPO and today that stock has declined from its initial price. On the other hand, Carlyle, opted to price the IPO at the lower value range and its stock price has remained relatively stable.

The City of Philadelphia has been an investor in a group called Behrman Capital III, L.P. Behrman is a 2000 vintage fund that was at the end of its fund life. Rather than continue to liquidate the remaining companies over the next five years and continually seek extensions of the partnership, management decided to exit the remaining deals via a secondary sale. An auction process was conducted and the portfolio was fully liquidated. The results of the liquidation allowed CPBPR to receive a large $6.8 million cash distribution in July.

From an overall portfolio cash flow perspective, there appeared to be a downward trend in distributions for the second quarter. Taking a look at the last two quarters, final net numbers for the fourth quarter of 2011 was $12.7 million net, and final numbers for the first quarter was approximately $12.7 million net. End of the second quarter, cash flows were $5 million net. Although the results are still positive, the results were indicating a potential shift towards a distribution decline. However, the July and August numbers are indicating a strong reversal and net cash flows are expected to revert back to the mean for the third quarter.

Agenda Item #6 — Real Estate Second Quarter 2012 Update

Mr. Foulkes reported that we are at 122% of our target allocation, so that gives some pause about where we are going. He said that the Board would have a much better idea after we hear Cliffwater's allocation study on September 19. Mr. Foulkes said that of the funds that we have, the two stars have been CIM Urban REIT and Mesa West Real Estate Income II. Also, that we have early investments, Almanac, LEM and Lone Star, which he thinks will turn out to be successful ones. Mr. Foulkes said that if he had to point out something that Board members might want to read in the Staff Report, he would say to read the section on CIM Urban REIT.

Agenda item #7 – Opportunity Fund Flash Report for Period Ended July 31, 2012

Ms. Cherry reported that both opportunity fund managers slightly underperformed for the month of July. FIS underperformance was driven by the domestic equity managers losing 17 bps, versus the non-US managers which added 27 bps to relative performance against its target index. Managers noted were Cupps Capital, down 244 bps against its benchmark. She noted concern for this manager's since inception performance despite only having been in the portfolio for one quarter. WCM and Cambridge, on the international side, also underperformed their respective benchmarks, both due to stock selection.

For PFM, Ms. Cherry reminded the Board of the notes made by the Manager during the second quarter visit; MarVista is being replaced and Profit has been removed from Probation to Watch.

Turning to performance, Palisades underperformed for the month of July but year to date performance is strong. She reminded the Board that PFM had been considering replacing the manager, but they are revisiting this idea given the reverse in performance. Year to date the manager is up 13.92 %., that's up about 400 points over in benchmark. PFM scheduled a visit with Philadelphia Trust to discuss performance. GW Small Cap Value underperformed its benchmark due to stock selection. One name in particular has been down 44% which hurt performance. The manager has exited its position in this stock.

Agenda Item #8 – Second Quarter 2012 Directed Commissions Report

Mr. Falkowski reported that the Fund's equity and MLP managers directed 32% of their trades to local minority and women owned brokerage firms. Year to date, the managers are at 29%,. For the commission recapture program during the second quarter, the fund recaptured a little over $42,000 for the second quarter; this represented a 45% increase from the previous quarter. The increase was due to an increase in the percentage directed as well as an increase in overall total commissions. On a percentage basis for the second quarter, the managers directed 29% of their commissions to the commission recapture broker, BNY ConvergEx. Again, they beat their benchmark and year to date they're also ahead of the benchmark at 27%.

Agenda item #9 – Chief Investment Officer's Report

Mr. Handa stated that securities lending income starting at the beginning of the year and through the transition period in March, April, from State Street to J.P. Morgan has been fairly volatile. Since JP Morgan has taken over the account, income generated has been fairly consistent and is anticipated to continue that way. Net Securities Lending Income was anticipated to be higher with JP Morgan primarily due to the reduction in fees negotiated in the new custody contract. The initial reduction in income during the transition period was taken into account when the contract with JP Morgan was negotiated and the higher income received today is a result, in part, of the more favorable economics achieved during the contract negotiation process.

James Leonard asked, aside from the impact of the March and April transition, when you look at the income generate by JP Morgan versus the last three years with State Street or compared to January and February of 2012, to what do you attribute the significant increase in income? Is it that JPMorgan is better at investing the collateral or is it the market?

Mr. Handa pointed out that if he had told you in January that the S&P 500 Index coming into today would be up 12%, concerning all the macro issues that we're facing, you would be surprised. He asserted that there are a lot of concerns out there that have been weighing upon investors. He stated that he did not think much has changed.

Mr. Handa informed that there was a request for more information about the Independence Fund. Mr. Handa commenced with a brief discussion of the Independence Fund.

Mr. Handa informed the Board that he was invited to speak at the Managed Futures Association and would like to attend. It is taking place in New York on October 18 and 19th.

Mr. Stagliano made the motion for Mr. Handa to be able to attend. Ms. O'Leary seconded. The motion passed.

Ms. Stukes discussed Rhumbline's ownership and whether or not the firm was still a woman/minority owned firm. It was requested that Mr. Handa submit information regarding the firm's ownership to the Board.

At 1:30 p.m., Ms. Weiss made a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Ms. O'Leary seconded. The motion passed.

At 1:30 p.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. Stagliano made the motion. Mr. Albert seconded. The motion passed.

At 1:30 p.m. Ms. Weiss requested a motion to adjourn the Board of Pensions and Retirement Meeting. Mrs. Stagliano made the motion. Mr. Albert seconded. The motion passed.