THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
JANUARY 22, 2015

MEETING MINUTES

There being a quorum, Rob Dubow, Finance Director, Board Chair, called the Investment Committee Meeting to order at 9:38 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
Alan Butkovitz, Esquire, City Controller
William Rubin, Alternate, First Deputy City Controller
Brian Albert, Alternate, Deputy Human Resources Director
Patricia Fitzgerald, Alternate, Human Resources Program Specialist
Ronald Stagliano, Vice Chair, Trustee
Carol G. Stukes-Baylor, Trustee
Andrew P. Thomas, Trustee
Veronica M. Pankey, Trustee
Folasade Olanipekun-Lewis, City Council Designee

Also Attending:

Francis X. Bielli, Esquire, Executive Director
Shamika Taliaferro, Deputy Pension Director
Brad Woolworth, Deputy Chief Investment Officer
Christopher DiFusco, Esquire, Director of Investments
Dominique Cherry, Investment Officer
Daniel Falkowski, Investment Officer
Aubrey Hassan, Investment Analyst
Kristyn Bair, Investment Analyst

Also Attending:

Ellen Berkowitz, Esquire, Deputy City Solicitor
Katherine Janoski, Esquire, Assistant City Solicitor
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor
Mark J. Murphy, Board of Pensions
Jackie Dunn, Finance
Daina Stanford, Administrative Assistant
Carmen Heyward, Clerk Stenographer II
Donna Darby, Clerk Stenographer II
Mark Johnson, Cliffwater
Stephen Nesbitt, Cliffwater

THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
JANUARY 22, 2015

Anu Patel, Cheiron
Karen Zangara, Cheiron
Ken Kent, Cheiron
Gregory Kinczewski, Marco Consulting Group
Maureen O'Brien, Marco Consulting Group
Will Greene, Loop Capital
Claudia Vargas, The Philadelphia Inquirer

THE BOARD OF PENSIONS AND RETIREMENT
INVESTMENT COMMITTEE MEETING
JANUARY 22, 2015

Agenda Item #1- Approval of Minutes of December 4, 2014

Mr. Dubow opened the meeting and ordered Executive Session at 9:38 a.m., to discuss Personnel matters. At 10:38 p.m., Executive Session ended, and Mr. Dubow advised that the CIO had left. He invited discussion or motion on appropriate action.

Mr. Stagliano made a motion to appoint Francis Bielli as Acting CIO, into the executive duties and raise his salary by $35,000. Mr. Butkovitz seconded. The motion passed.

Ms. Pankey made an additional motion that a search be done for the CIO position. Mrs. Carol Stukes-Baylor seconded. The motion passed.

Mr. Dubow requested volunteers for the CIO Search Committee, and Paul Weiss, Folasade Olanipekun-Lewis, (non-voting member), William Rubin and Carol-Stukes Baylor volunteered.

Mr. Stagliano wanted to consider changes about salary for some of the other staff members due to the changes. Mr. Bielli said that he considered it and would report back to the Board about increases.

Mr. Dubow requested a motion to approve the minutes for December 4, 2014. The minutes were tabled. Mr. Brian Albert made the motion. Mrs. Stukes-Baylor seconded. The motion passed.

Agenda Item #2 – Cheiron Pension Adjustment Fund (PAF) Presentation

Mr. Kent and Ms. Patel distributed a report, and facilitated a conversation on the PAF for 2014 excess assumption rate and distribution option. They offered options to the Board in deciding how to distribute the ad hoc cost of living adjustment among the population of in-paying retirees, disabled retirees, and surviving spouses and beneficiaries. They considered DROP eligibility with the Board members.

Mr. Kent reminded that the asset smoothing for the PAF, according to the code was over a five-year period, and had not changed when the asset smoothing method was changed to ten years. The increased return was reflective of the absence of 2008 in the five-year smoothing. It was still present and would be affecting the smoothing for funding for a number of years. The Board, also, should be aware that $300.0 million of asset return that would be deferred to the market basis or actuarial basis, meaning the Fund will outperform the assumption. The expectation was that for 2016, if the fund earned 7.85%, next year, there will be another distribution into the PAF of approximately $40.0 million. He introduced related to their conversation about how to spend it down, it would be based on the consideration of whether to spend it all, or defer it or smooth it for amounts available in the future to distribute.

She provided an example of lump sum distribution which could be a multiple based on years of service for years of retirement, and, also, instead of service retirement years, it would address

laps in retirement to July of 2014. The Board could consider an arbitrary amount, or a 13th check, as one additional amount of their regular pension in one year, rather than twelve, or a flat dollar amount. The ad hoc, C.O.L.A, would be a 1% one-time increase on the benefit for all future years.

Mr. Kent talked about how Cheiron's report defining retirement status and eligibility in the targeted population, followed by a discussion with the Board members as to how to distribute the C.O.L.A. with the consideration between Options I through III.

His provided Option I and II, for an approximate measurement. He used Option III to provide the dollar amount, for each year of service at $35.00 and each year of retirement, $35.00.

Mrs. Stukes-Baylor confirmed with Mr. Kent that the Board was using the $35.00 for service multiplying and $35.0 for retirement multiplying. He said, correct. She asked if those on service connected disability were getting it. He said that those with service connected could occur at any time, and that could be just a couple of years. They would be treated as if they had 20 years. It gave service connected disabled more credit for service consideration when they became disabled.

Mr. Bielli asked Mr. Kent for clarification about those in DROP, with no credited service. Mr. Kent said that Cheiron would consider it as retirement, because they were not making a retirement contribution. They were considered retired for the lump sum calculation, but not for eligibility to be in the Plan.

Mr. Leonard requested that any further action be tabled, contingent on whether or not there was a legal challenge.

Mr. Bielli advised that the payment would not be until April or May, but the process would be moved forward. It would not be paid before the Law Department came back to the table.

Mr. Dubow said that tabling the motion would not affect when the distribution would be received. He noted that tabling the motion would not affect the people getting the four years for DROP.

Mr. Dubow requested a motion. Mr. Stagliano made the motion to table voting on how the distribution would work pending a legal opinion from the Law Department. Mr. Thomas seconded. The motion passed.

Mr. Bielli informed that the date for measuring the ten years would be on or before June 30, 2004.

Agenda Item #3 – Asset Allocation Recommendation

Mr. Nesbitt noted the fluctuating nature of the market, with Cliffwater's forecast for the City's policy portfolio going forward to maintain the current actuarial rate of 7.85. He offered Cliffwater's recommendations as to how to achieve that.

He presented Cliffwater's recommendation to reconcile the differential between Private Equity and Private Debt, of $35..0 million, with most of the money coming from Fixed Income Investment Grade and High Yield, from Rhumbline Index Fund and Rhumbline Index Treasuries. In addition to moving more funding into Private Equity and Private Debt, they will bring to the Board, during 2015, three new Hedge Fund managers for $120.0 million, at $40.0 million each.

Mr. Woolworth advised that the liquidation of the Independence Fund was completed within the prior week. He affirmed that 90% was allocated, as additions or subtractions, to Investment Grade Bonds, a reduction, and to the Global Bond Aggregate and to Rhumbline treasuries.

Mr. Nesbitt advised that there would be a reallocation from the I:Shares Emerging Bond portfolio market portfolio to fund the Emerging Market Debt portfolio, and a small increase to MLP's.

Mr. Dubow asked Mr. Nesbitt to talk about the high yield rational for putting more there. Mr. Nesbitt said that Cliffwater would be slightly increasing allocation to Opportunistic Bonds. High yield bonds were weak in 2014 and did not do well as expected. He noted that they slightly improved, but not as an endorsement. Mr. Dubow asked how they performed. He responded that, historically, as discussed in the fall, they underperformed the Merrill Lynch High Yield II Index. This year, Cliffwater was supporting a recommendation for repladement of McKay Shields.

Mr. Dubow asked if there was a manager in mind. Mr. Woolworth said Guile or G.W. Mr. DiFusco added Logan Cyclical.

Mr. Nesbitt said that Cliffwater's goal was for this calendar year, and when they report in 2016, they could show that they closed the gap in funding. In July, he would provide fiscal year information. General practice was fiscal year investment plan, efficient frontier, closing of the gap that illustrated best return at a given level of risk.

Mr. Dubow clarified with Mr. Nesbitt as to whether he was saying best or expected return. He answered, expected.

Mr. Nesbitt continued in reporting (page 5) that the Fund policy would be changed, over the course of the year, from 42% to 40%. There would be no changes to Domestic Equity or REITS.

Ms. Pankey asked Mr. Nesbitt when McKay Shields would be terminated. He said that they would do an RFP, and they were ready to go as soon as the Board made a decision.

Mr. Dubow requested a motion to approve. Ms. Pankey made a motion to approve the asset allocation recommendation and readjustment with McKay Shields. Mr. Stagliano seconded. The motion passed.

Agenda Item #4 – Real Assets – Gaw Capital U.S. Value Added Fund I, L.P.

Mr. Dubow introduced the item, where they talked about them last time.

Mr. Woolworth added that there were some questions that were raised about the operation report.

Mr. Butkovitz requested a verbatim transcipt of the entire discussion.

Mr. Butkovitz said that he did not know what was the appropriate time to do it, but he knew that there had been trouble reconstructing the conversation that occurred on these issues the last time, and he thought that, maybe, they could reconstruct it at that point during the meeting. So, the issue arose because there was a report from Cliffwater that classified the investment as high risk. It was his thought that the grade was "C". They came to the meeting and orally said that it was a good investment, and that they were satisfied on the objections written in the printed report.

Mr. Butkovitz said that there were, specifically, questions regarding the governance issue and the fact that there was no chief compliance officer. His concern was that the written report and the oral statement were inconsistent or contradictory. Then, there was, from his belief, a statement that the written report had been amended in light of conversations with the Staff, and the Board requested that Cliffwater come back and reconcile these differences and provide an updated, written report that was consistent. He asked if there was anything that he said that was, in anybody's opinion, inaccurate?

Mr. Dubow said that the facts were consistent with his memory. He invited Mr. Woolworth to take the story from there.

Mr. Woolworth reported that, as stated, there was some discussion about the report. Some of it was timing. Cliffwater was still working with Gaw to make sure that they met the institutional class of best practices. So, those things were happening in real time. He recalled that one of the issues, was in reading the report and they were saying that they saw the operations report and investment report; and, they liked the manager but raised all of these issues that were not addressed in writing.

Mr. Dubow said that the issues in writing said that it was a high rise. Mr. Woolworth said, right, and so, Cliffwater went back to update the report for the changes that had taken place, and that was the report that was in their binders.

Mr. Dubow asked Mr. Woolworth to tell them what was updated. Mr. Woolworth said that the revised operations report stated that the operational risk level, because it was missing from

before, of the fund was acceptable, and that the operating practices of GCP USA were appropriate for the fund activities. Again, it, also, stated that GCP met all government's best practices, which accessed legal and regulatory compliance practices and business risk management.

Mr. Dubow asked Mr. Woolworth if that was on page two at the bottom of the risk assessment? He answered, that was correct.

Mr. Johnson said that he would concur with Mr. Woolworth that it was real time, and based on a number of conversations that Cliffwater had with the manager, that they were putting in place compliance procedures, hiring of the chief compliance officer, as well, and all of that had taken place to their satisfaction.

Mr. Butkovitz asked Mr. Johnson if the compliance officer was Roman Nemstov. His response was, that it was correct. Mr. Butkovitz asked from where he came. Mr. Johnson's response was that Roman came from R.V. Coombs as a real estate consultant for six years, and prior to that, he was at another real estate consultant firm called (Courtland), and he had, approximately, ten years of real estate experience. Tim Walsh, who was the president and COO at Gaw had worked with Roman. Roman had been a consultant for the State of New Jersey, while Tim was the CIO, there.

Mr. Butkovitz asked Mr. Johnson if at the time of his appointment as chief compliance officer, he was already working for Roman? Mr. Johnson said, that it was correct. He had been hired in early 2014, with the plan being that, ultimately, he would be responsible for operating activities, as well as investment activities. So, the piece of his function was entirely in line with the initial plan that the firm had for him.

Mr. Butkovitz asked if instead, he was vice president for investments prior to that appointment. Mr. Johnson said that it was correct.

Mr. Butkovitz asked if there was a standard in the industry with respect to whether or not that created a conflict. It appeared to create a different mindset. The compliance people were trying to keep the investment people on one side of the line. Mr. Johnson said that the role of the chief compliance officer was to implement the client's policies and make sure that those policies and procedures were followed. It could be related to insider trading or personal trading activities, reporting political contributions, that sort of thing, as well. It was not necessarily overseeing the investment specific activities of the fund, but more the operation procedures and client the client policies, subject to an SEC derived compliance policy. It is a small firm, with 13 staffers in the U.S. for GCP USA. Other small investment managers, Cliffwater had seen wearing multiple hats, as well. Their belief was that he had the prerequisite skills and capability and that working with Mayer Brown and the counsel, that they instituted the appropriate policies and procedures to have a robust compliance program.

Mr. Butkovitz asked Mr. Johnson if there was no rule, policy or standard that was implicated by having him move from vice president of investments to compliance officer. Mr. Johnson said

that he did not know what the title was, but, as he understood, operationally, the plan for him, long term was to be involved both in operation activities as well as administrative.

Mr. Butkovitz said that the question was, under the law, it implicated a potential violation, and was it the standard in the industry as within acceptable norms. Mr. Johnson responded that he was not aware of any specific violations. It would be a function of how his job responsibilities were drafted and what his specific role would be outside the chief compliance officer role.

Mr. Dubow noted that he had seen the compliance officers in lots of places, and asked how did his background compare to what he normally saw? Mr. Johnson said that compliance offers had come from a variety of roles in the past. They came from operations roles. They had come from administrative roles, as well. So, he would not say that his was necessarily out of the ordinary for people who had seen otherwise. For Cliffwater, the key questions were if the person was capable, and were the policies and procedures that had been established were appropriate for the firm and the firm's operation, and did they believe that the compliance of the individual and the policy and procedures were allowing this firm to operate without issues.

Mr. Butkovitz asked Mr. Johnson if his conclusion was, yes, to all of those questions. Mr. Johnson said, yes, that was correct.

Mr. Bielli recalled Cliffwater's response to Mr. Woolworth that Cliffwater believed that the operational risk level of the fund was acceptable, and the operating practices of GCP USA were appropriate for the fund's activity. He noted that governance grade should remain the same, B and B. He asked why it was a B. Mr. Johnson said that they kept the sentence in at the beginning of the risk assessment section that said that the operational risk, overall, for the fund was elevated and above average for the real estate fund. Risk was on the spectrum. Cliffwater tried to be as careful as they could, in terms of being fair across different firms.

Mr. Woolworth asked Mr. Johnson to be as specific about why.

Mr. Johnson continued in saying that it was a young firm, and the policies and procedures for compliance operations had been established and were being established as they spoke.

Mr. Dubow said from what Mr. Woolworth was saying would he say that it was elevated risk for any young firm, or was it something particular to this firm. Mr. Johnson said, overall, that given the nature of the firm, the B rating was appropriate. He could not guarantee that other firms at a similar age would get a similar rating.

Mr. Dubow asked if it was not just related to age, but related to other factors, also. Mr. Johnson said based on his conversation with Cliffwater's operations people, his thought was that a lot of it was the age. It was a new firm, with new policies and procedures. They believed that what they put in place was appropriate for the operations, but how they executed the policies and procedures was a true litmus test.

Mr. Nesbitt added, that, because of their young age, Cliffwater had not had time to see them execute their policy or that they followed their policy over time. There had not been SEC exams. Generally, with firms, to get an A, they liked to them in business executing a tight compliance policy over a long period of time. He reminded the Board that they reviewed compliance every year. It was not a one-time thing, with them leaving it. They followed it year-after-year. Cliffwater would like to see some history, and with a young firm, there would not be a history. Generally, their operations people liked to see history. That was why B's were, generally, assigned. There were some exceptions, with a big start up firm, they hire several people. They raise a lot of capital. There could be exceptions. Generally, with a new firm, a B was not uncommon, and they would recommend a "B".

Mr. Bielli asked Mr. Johnson if that was true for new firms that were not subsidiaries, but outgrowths of existing firms such as this. There was an existing firm for years doing foreign business, and now, this is a new firm doing USA only. Was that taken into consideration, and to what level did they give the benefit of previous experience. Mr. Nesbitt said that they did look at that. They looked for totality of substance. It was a subsidiary or an extension of a foreign firm. They did not have the same regulatory requirements. He mentioned that SEC regulation was new to the private firms. Many that had been around a long time were just implementing compliance policies, and there was a shortage of compliance officers. So, generally, Cliffwater looked at the totality of circumstance.

Mr. Bielli said that they put in Tim Walsh, who was at New Jersey, but based on something that he just said, this was a foreign firm with different rules, different regulations that they followed? Was it a concern about that culture of not following the strict regulation carried over to the new firm? Mr. Nesbitt responded that Cliffwater was always wary, but they had known, both Tim and Roman for many years. They are very professional, and so, the background checks and reference checks, and, again, they believed it was totality. They believed that they could execute a best practices compliance, and if the Board approved them, Cliffwater would do what they always did with all of their partnerships; they went in and did their operations due diligence to make sure that they were compliance.

Mr. Bielli said, on the continuing pages, so speaking of best practices, you say that they effectively managed all business operations (in the report, he did not mean to say him specifically) and met expectations, with most best practices, except the firm does not involve its limited partner advisory board in review of evaluation. He said that he knew that part of what was discussed and what they negotiated was having a seat on the advisory board. They did ask a question, yesterday, and, he thought that Mr. Johnson responded concerning about his 50-50 proposition as to whether the advisory board reviews and approves its evaluations. He knew that there was, also, some questions about a willingness to want to insulate yourself from my ability by not approving the evaluations if they were a limited partner, so to speak. He would like to know his position, the pros and the cons, on whether or not reviewing the approval of these evaluations. He cited it as not being best practice. Why did he think it was a best practice, and what was the effect of Gaw not allowing members of its advisory board to approve the review of the evaluations. Mr. Johnson requested if he could clarify his e-mail sent to Mr. Bielli, yesterday, his response was targeted, largely, to the broader private equity and private real estate

fund universe. Even in that universe, the broad universe, they did see less than half of managers involve their limited partner advisory team in the review, evaluation approval process. Within real estate, it was very infrequent that managers would do that. Chris Rice-Shepard, who was their lead analyst in the real estate space, was not aware of any firm, frankly, in the real estate space that had their L-pack (limited partner?) approved. Mr. Bielli said that was fair. He asked why were they cited as not meeting best practice in this area, if no one did it. His response was, in that view, the best practice was the expected goal of their operations due diligence team, that they believed that managers moving in that directions would be considered as best practice. They could discuss whether, if no one was doing it, was it really best practice. His thought was that there was debate, there, of course, but their general view was that there was a benefit to having the limited partner advisory committee be involved in the evaluation process. His thought was that to say that it was best practice, in terms of activity, today, was probably a mistake. Mr. Bielli said that he did not say it, but Cliffwater said it.

Mr. Nesbitt said that (operations people) people looked at all private partnerships and not just real estate. Basically, they felt that best practice, and sometimes they tried to change the industry standard, was having the advisory board opine on or approve valuation. It did not, generally, happen in real estate, and hardly ever happened in real estate; but he thought that they would get there

Mr. Bielli said that they were being proactive in saying that this was what Cliffwater would like to see happen in the industry.

Mr. Dubow said that best practice was not that people were doing it now, but where they thought that the industry should go.

Mr. Nesbitt said, for Cliffwater, it was not common, but they would like it to be. They were tough graders, and that was how they tended to be.

Mr. Bielli said that it was helpful, with Gaw on the advisory board, if the investment would be approved, that would be something that they would push for.

Mr. Nesbitt said, yes, they it was his thought that the Investment Staff and the Board had always pushed, and all governance, should push beyond common or redefine best practice.

Mr. Woolworth said as long as they were mindful that they did not pierce the language,

Mr. Dubow asked Mr. Woolworth to explain. Mr. Woolworth said here is the opposite argument that this is best practice, as something that they encountered in certain private equity partnerships. If LP base started to opine and be viewed as being an active rather than passive investor, then they could pierce that limited liability shield, and they could, potentially, be held responsible. He agreed that the evaluation was xyz. Years later, the manager took carried interest on that valuation, and it was not just the GP that made that valuation, but it was everybody else, also, agreed to it. Therefore, there was some argument to say, that if all of the advisory agreed to it and we were wrong, are we held liable for other members that were not on

the advisory board. What is our protection? The industry did not say that it was this way or that way. So, they had to be mindful on that issue.

Mr. Dubow asked if there were any other questions.

Mr. Leonard said that his thought was that it was a legal conclusion, and, he thought that, as a general proposition, very general, in piercing the corporate liability vail, it may be true, or it was, generally, true, as a sort of black letter laws of thought. They had not researched. It was his thought that Gaw was probably a Delaware, LLC, probably, or an L.P. So, they had not researched that particular issue under Delaware limited partnership and LLC law to see how courts may or may have not treated, or where, along the spectrum.

Mr. Dubow asked Mr. Leonard if it was a potential issue? He said that he did not know the extent. They had not looked at the extent. It was general proposition, that when the general partner or the managing member of an LLC was the one that had the exposure, in terms of liability and the LP's had limited liability, and that was the real protection. It was the capacity in which the Board functioned in these type of vehicles. He said that he did not know what courts, particularly, said about how particular actions, for example, in terms of LP's on advisory boards, the types of actions, where courts may or may not have found these types of actions, by advisory board members had crossed the line, in terms of management and essentially converted a limited partner or a non-managing member of the LLC into that; and, therefore their limited liability is pierced.

Mr. Woolworth said that he would say to that, before the financial downturn, it was never an issue. In fact, more governance was wanted. It made sense. It was, kind of, the anger out of the downturn, that folks at certain public pension plans started to creep beyond just making valuation calls and started to get more activists within some of these partnerships. It started to make people say, wait a minute, let's not get crazy, here. It is something that they are starting to do.

Mr. Dubow asked if there were any questions or comments.

Mr. Dubow requested a motion. Mr. Stagliano made the motion to approve an investment of $40.0 million in Gaw Capital. seconded. Mr. Dubow requested a Board vote. Ms. Pankey abstained. The motion passed.

Agenda Item #5- Private Markets- Raspberry Street Fund I, L.P.

Mr. Woolworth introduced the questions last time regarding conflicts of interest, and were there any conflicts for a manager being a consultant and then moving into a GP role. The Law Department provided an opinion, as requested.

Ms. Janosky reminded that it was legal advice that could be presented at an executive session. It was her understanding that the Board wanted her to present it at a public meeting; and, that she

reminded that they would be waiving attorney client privilege. She requested permission to proceed.

She said that they were asked to look into whether or not there were legal impediments based on conflict of interest or concerns, because of Franklin Park's role as the Board's current Private Equity consultant, and they would be, also, investing in them. The Law Department found that there was a conflict. Based under basic fiduciary principles, an agent, Franklin Park, as the Board's consultant, should not be benefitting off of its principal, which was, the Board. Here Franklin Park, while the agent was negotiating with the Board on the terms of the contract. She said that it was equally true under fiduciary principles that it could be waived, if there was full disclosure, and that the agent acts in good faith.

Mrs. Altman-Rosenberger supported Ms. Janoski, in saying that the conflict that she was addressing was that Franklin Park would be serving as the Board's consultant in negotiation and on the other side, negotiating deals with the Board.

Mr. Dubow asked was it a conflict of interest to do both at once or if they did one, then wound up doing the other. Ms. Janoski said that the greater issue was the fact that they could be seen as taking advantage of their position in negotiating.

Mr. Butkovitz asked Ms Janoski what was the standard that the Board should follow in determining whether or not it was prudent to waive conflict. Ms. Janoski answered that there had to be full and fair disclosure that they were aware of the conflict, and Franklin Park was telling them that there was the conflict. The other standard was to consider whether or not the Board thought that it was a prudent decision to waive the conflict, under all of the circumstances. If they thought that they were acting in good faith, in giving good terms, and not acting in some way to take advantage of the Board. He asked if she was saying hypothetically, or was she saying it as a conclusion that she was making. She said that she was not aware of Investment Staff's due diligence in making investments.

Mr. Woolworth requested to speak to Mr. Butkovitz's request, in saying that there would be a concern if they had a consultant who was going to Staff to recommend they give them money. In this case, Staff reached out to Franklin Park to do more co-investments, because of lower cost and more access. He said that Franklin Park said, yes. Staff considered how they could do that.

Mr. Bielli requested that Mr. Woolworth to talk about Staff's due diligence process. Mr. Woolworth advised that Staff met with the manager, did a site visit, they obtained all of the performance numbers, they interviewed people at Franklin Park, individually; and, they did a full legal review, in comparing the terms that were being identified with other players in the market. Staff found their economics to be more attractive than other market players' offers.

Mrs. Stukes-Baylor confirmed with Mr. Woolworth that Staff reached out to Franklin Park. Franklin Park did not solicit the Pension Board for their business, which would be helpful in they were trying to market themselves. He said, correct.

Mr. Bielli informed that Cliffwater was operating as the Board's consultant with Raspberry Street Fund I, L.P.

Mr. Nesbitt said that as a co-investment, if the Board had a consultant running discretionary for fee partnership, in which they were paid, the question was would having both hats as consultant, would the firm steer the Board's investments towards GP, who would be offering the consultant as manager, good co-investment opportunities, and away from firms who do not do co-investments, with anybody. That was the gray area.

Mrs. Stukes-Baylor asked Mr. Nesbitt what was a clear area. He said doing an RFP. The Board liked them as a co-investment manager, with discretion. Cliffwater liked them and were giving them the green light.

Mr. Leonard provided the Law Departments conclusion that if Franklin Park parted ways with the Board as a consultant, they did not believe that there was a legal conflict. There was an appearance, but not a legal one. If the Board, as Ms. Altman–Rosenberger and Ms. Janoski wanted to keep Franklin Park, as a general principle, they would have to conclude from a fiduciary standpoint, that it would be able, from a prudence investor perspective and a legal perspective, to conclude that parting ways from Franklin Park and hiring another consultant while investing in Raspberry would be prudent from an investment standpoint. They would not want to part ways with Franklin Park and start the analysis. His suggestion was that Staff and Cliffwater look at other consultants without doing an RFP, in terms of what was out there. Look for other consultants that were good, better or close.

Mr. Nesbitt said if they did an RFI, it would not commit anybody to anything, and Franklin Park did not have to respond to an RFI. They would just be looking out at what the field.

Mr. Dubow requested a motion to approve. Mr. Stagliano made the motion to approve an investment in Raspberry Street Fund I, L.P. Mr. Brian Albert seconded. The motion passed.

Mrs. Stukes-Baylor altered the first motion to make a motion that Cliffwater conduct an RFI, with the consultant staying in place. Mr. Stagliano seconded. The motion passed.

Mr. Dubow invited volunteers for the RFI Committee. Andrew Thomas, Paula Weiss and Carol Stukes-Baylor volunteered.

Agenda Item #6 – Marco Consulting- Annual Proxy Report and Review

Mr. Kinczewski said that Marco Consulting would report about the changes to the proposed proxy voting policy regarding new issues that appeared for 2015, in view of 2014 and what would happen in 2015.

Ms. O'Brien advised about the addition to the voting policy Section 14.02, re-incorporation of corporations, expanding the language to reincorporate other countries geared toward other states, where big companies merge with small companies, based in countries with a lower tax rate. The relationship is inverted to make the foreign company the head, so that the smaller company could enjoy the tax benefit.

Mr. Kinczewski reported for the 2014 proxy season, where the Board targeted nine companies for shareholder proposals based on Marco's suggestions at the meeting last year. All of them were part of a effort by 14 different institutional investors active on the National Conference of the Public Retirement Systems or the National Council of Institutional investors that were designed to the improve compensation practices of companies that had demonstrated weaknesses in the form of low advisory votes in the past. In some cases, the Board filed solo at four of the companies. The Board co-filed with five companies, including with New York City Fund, the State of Connecticut, the Miami Firefighters and the Kansas City Firefighters. It was a coordinated plan, in which the Board expressed interest. The results were good. It was his thought that the Board was one of the first of institutional benefits funds to start going in with proxy access.

He introduced a cutting edge, new type of proposal that required companies to state in their plans specific performance standards. So, they would know when voting, what type of performance and what type of award. He indicated the shareholders that were willing to agree.

Mr. Bielli asked Mr. Kinczewski if he should refer the person who was in charge of the 30% Coalition to him. He described the coalition as an effort to increase the amount of females on the Board. The Board would like to reach out to the local company and talk to them to see if they could make some progress before the Board filed. Mr. Kinczewski said it made good sense. He added that over the years Marco Consulting had been getting a better and closer relationship, working with Staff and with the trustees to make sure that they were communicating.

Ms. O'Brien reviewed that in 2014, the Board filed nine proposals, but that in 2015, they would be going from nine to 28.

Ms. Weiss expressed concern in going from nine to 28, what it mean for Staff's time. Mr. Bielli recalled the conversation with Marco Consulting, a couple of days ago, the communication and understanding where they were going to decrease staff time. It was still time, but communication and work relationship was good, where staff's time was minimal.

Ms. Weiss said when Mr. Kinczewski talked about their relationship as being part of a group of funds or shareholders, in agreement with a list of the needed changes, what would be the reason in going forward there would be a large company with a shareholder issues, where no one else would sign on with the Board and they could go on their own if they wanted. Ms. O'Brien said that it was not that there was no desire to get engaged. They could walk the Board through their process, how, at the end of the proxy season, could looked at the policies and to change them, then they would look at the holdings to see if the Board could file. They would, then, reach out

to other investors to see if they were interested. It was good to do it as early as possible, that by the time that they attended conferences, it was a good venue to say what they were going to do and to ask others to sign- up.

Ms. O'Brien highlighted early successes for the Proxy Access Proposal, where there was a big loss, and the company agreed to provide proxy access, and, another was at Public Service Enterprise Group, who agreed to start disclosing all political spending on their website. Marco assured that the Board was quoted in the Monster Beverage press release, which was issued by the New York State Controller, as well as a press release from New York City announcing the proxy access campaign, in which the Board was heavily involved.

Mr. Butkovitz commended Mr. Kinczewski and Ms. O'Brien in that he had a great targeted record. He saw a lot of success on the political spending proxy.

Mr. Kinczewski said that this was the last time that he would be meeting with the Board. He would be retiring. He advised that Ms. O'Brien was handpicked and that he would be around to be helpful, and that it had been a pleasure working with them. He thanked them.

Agenda Item #7- Flash Report for the Period Ended December 2014

Mr. Johnson reported on the performance for the portfolio in December, with difficulties in the market during the month, down -99 basis points and slightly below the policy benchmark of -94 basis points. He highlighted that Emerging Market equities declined, but, surprisingly, Small Cap Equities was the best performer.

He provided an allocation update as of December 31, 2014, showing that Hedge Funds at $82.0 million over allocation, with the addition from last month of 400 Capital and Axionic, into the Hedge Fund category, with a similar deduction in Real Assets. The numbers were before the liquidation of the Independence Fund.

Mr. Bielli asked Mr. Johnson about Taconic and Mason. He said that they were in the report, as well.

Agenda Item #8- Investment Staff's Report

Mr. Woolworth reported that Securities Lending generated $2.9 million for the year.

He reported Quality "D" as down to around $340,000. It was Staff's hope that it would continue to decline.

He reported the Diversity manager report for assets under management at, approximately, 27%, overall, and, at 17.6% for Diversity and 7.2% for local.

Mr. Rubin asked Mr. Woolworth when they did the Securities Lending and the Commission Recapture, and when the brokers made trades for the Board, did they get a breakdown of their transactions, about with whom they dealt, where it was going, and the price they paid. He asked if they matched it. Mr. Woolworth said that they received the Commission Recapture report, a quarterly report that was provided to the Board, and that they could get more detail, but did not present it.

Mr. Woolworth noted that Mr. Rubin was talking about high frequency traders. Mr. Rubin noted with the better price and trading (ours) at one, getting a separate price through the high frequency, and, that the difference in the transactions was pocketed and shown in the breakdown in the transactions. He asked if was Staff tracked it and if the Fund was exposed.

Mr. Bielli said that the Board had the former GTS in the role of brokers, and they could provide that detail for the Board.

Mr. Rubin asked if they did and provided it to the Board and checked it to make sure that they were not liable for any outstanding monies. Mr. Woolworth said that Staff wanted to make sure that they were competitive, and GTS did the analysis to make sure that trades were being executed.

Mr. Rubin confirmed that they had not brought anything back to the Board that said that they were exposed. Mr. Woolworth noted that they said that the Fund was competitive last time.

Mr. Bielli said that the last report was good, and that Mr. Falkowski would provide an update.

Mr. Rubin asked if they did it on managers and did the background on the prospective on the current managers get social security numbers; and, did they run them through with the background check to make sure whether or not they had outstanding cases. Mr. Woolworth said that it depended. They had to sign a document that allowed them to do it. Staff did not hold the data.

Mr. Nesbitt said for every manager that they recommended doing due diligence of the operations team, CPO and CIO, and a background check, which they outsourced.

Mr. Woolworth advised that the next scheduled Board meeting was for February 26, 2015.

He reminded about the outstanding RFI for Private Equity. Staff would like to form a Sub-Committee for the high yield manager search to replace McKay Shields. The company that was formerly GTS, staff ran a search, and it was completed. They needed a Sub-Committee. Mr. Stagliano said that they had a Sub-Committee, and they could use them. That was Mrs. Stukes-Baylor, Mr. Stagliano and Ms. Weiss.

Mr. Dubow invited volunteers for the High Yield Manager Search Sub-Committee. Mr. Leonard, Mr. Rubin and Veronica Pankey volunteered.

Mr. Dubow asked if there was any new business.

Old Business

Mrs. Stukes-Baylor said that she asked Mr. Leonard to give the Board a quick briefing as to where they stood with the 401(k) transition with the Fairmount Park employees.

Mr. Leonard said that the IRS approved to a disillusion and winding up from 401 (A) Plan, in which the employees from the former Fairmount Trust were. The ordinance was sent and introduced by City Council, with the other tax changes and layer of other changes. Then there will be a hearing. The next step was doing the notice letters to all of the members of the 401 (A) Plan were notified, giving them the option to receive money when the plan winds up, or transition money to 457(b) Plan, out of which, to prepare service credit. They will be given one year to buy their time into the Defined Benefit Plan Y.

Mrs. Stukes-Baylor asked Mr. Leonard if there needed to be training as to the transition with rolling over. They had to be adequately informed on the tax liability of taking the money out, if they did not adequately roll it over. Mr. Leonard said that if it did not, they would add it to say if they received the distribution from the 401 (A), Plan, it would constitute an early tax distribution.

Mrs. Stukes-Baylor that she was making sure that they knew that it was a tax implication and that they should see their tax advisor. She asked if the Board had to wait until the hearings at City Council when they approved it, or did they know when that plan was going to be dissolved.

Ms. Berkowitz said that the plan was terminated. So, it was the transition, in terms of the ability of the participants to get the money and purchase their time. That was on what they were working, now.

Mrs. Stukes-Baylor asked if the plan was terminated, where was the people's money? Mr. Leonard said that the money was still there, and they had the election of whether or not to put it in the 457 (b) Plan, to receive a distribution, or to put it into another qualified plan.

Mr. Leonard said that he would update the Board members in February.

At 1:28 p.m., Mr. Dubow requested a motion to adjourn the Investment Committee Meeting. Mr. Albert made the motion. Mrs. Stukes-Baylor seconded. The motion passed.

At 1:28 p.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. Albert made the motion. Mr. Stukes-Baylor seconded. The motion passed.

Mr. Rubin asked before the final adjournment, if there was an update with the PICA report. Mr. Bielli said that the members received an e-mail with the report, because some members wanted to discuss it, today.

Mr. Dubow asked the Board members if they wanted to talk about the PICA Report.

Mrs. Stukes-Baylor asked if they wanted to talk about what it basically meant to the Board.

Mr. Stagliano asked Mr. Dubow if he wanted a response to it. Mr. Dubow said, yes. Mr. Stagliano said, obviously, he did not like it. It was political nonsense. The facts in it were wrong. They said in the report that they did not consider increased in longevity of age, and for that an actuary was used. It was insulting to the Board. He will take it up with them when he saw them.

Mr. Rubin said that they were not union trustees. They were employee trustees that were elected, in general. So, it always gets thrown out who the Board is.

Mr. Albert said what was misleading was that it implied that the Board established benefits.

Mr. Stagliano said that they wanted to have independent people sitting on the Board, and they went though it every few years, where somebody was always looking for ways to get their hands on the investments.

Mrs. Stukes-Baylor asked if the Board members were held to their recommendations. Mr. Dubow said, no.

Mr. Bielli said that it was a separate report and had nothing to do with the Special Pension Commission, of which they were a part.

Mr. Stagliano said that there was still a former Board member who was over there, who should know what were the facts, but they chose to ignore them.

At 1:38 p.m., Mr. Dubow requested a motion to adjourn the Board of Pensions and Retirement. Mr. Albert made the motion. Mr. Rubin seconded. The motion passed.

Ms. Weiss invited members of the Special Pension Sub-Committee to stay for the meeting with Cheiron.

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

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Robert Dubow, Finance Director
Board Chair