

**AGENDA ITEM I:  
INVESTMENTS**

**Pension Commission  
City Conference Room  
250 Constitution Plaza  
Friday, October 31, 2008  
8:00 a.m.**

<b>MINUTES</b>
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**INVESTMENT PROGRAM**

**MEMBERS PRESENT:** Peter Stevens, Chairman ; Gene Goldman, Commissioner; Frank Lord, Commissioner; Walter Remes, Employee Representative; Kathleen Palm Devine, Secretary

**STAFF PRESENT:** Gary L. Carter, Director of Investments; Gary B. Draghi, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst; Denise Aguilera, the MERF's General Counsel; Edward O'Leary, Senior Project Manager

**OTHERS PRESENT:** Claire Shaughnessy and Cynthia Steer, Rogerscasey, MERF's General Investment Consultant; Richard Pokorski, Benefits Administrator, Department of Human Resources

Chairman Peter Stevens called the Investment portion of the meeting to order.

**I. Review of Minutes: Regular Meeting of September 26, 2008**

Chairman Stevens introduced the item and asked for questions, comments or corrections. There were none.

**A motion was made, seconded and adopted to accept the minutes as presented.**

**II. Status of the MERF Portfolio for the Month Ended as of September 30, 2008**

Chairman Stevens introduced the item. Secretary Devine asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that at September 30, 2008, the market value of the MERF's investment portfolio approximated \$981 million. He stated that the portfolio generated a negative 6.6% net of fees for the month, outperforming the MERF policy benchmark return of negative 8.1%.

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**Status of the MERF Portfolio for the Month Ended as of September 30, 2008  
(continued)**

Mr. Antoine reported that the MERF's domestic equity portfolio reported a negative 7.7% net return for the month, outperforming the Russell 3000® Index (R3000) return of a negative 9.4%. He noted that the primary source of the excess performance against the benchmark could be attributed to the MERF's managers' security selection within the medium capitalization sector.

Mr. Antoine then noted that the MERF's international portfolio generated a net return approximating a negative 13.5% for the month, outperforming the Russell Global ex U.S. Equity Index return of a negative 15.5%. Lastly he reported that the MERF's total fixed income portfolio posted a negative 3.0% net return for the month, outperforming the custom fixed income benchmark return of a negative 3.9% and that the Liquidity Fund generated a negative 5.6% net return for the month, outperforming the benchmark return of a negative 8.1%.

**The Commission accepted the report for advice.**

**III. Consideration of Recommendation Regarding Liquidity Fund**

Chairman Stevens introduced the item, which had been tabled at the July, 2008 meeting. Secretary Devine recommended that the Liquidity Fund should be split into two tranches so that the fund's two purposes would be better served in light of current market conditions. Secretary Devine noted that these purposes are (1) to ensure the needed liquidity for benefits payments and expenses and (2) to implement the MERF's passive investment allocations with as little disruption to the MERF asset allocation and its active portfolios as practical.

Secretary Devine then noted that Rogerscasey had recommended the establishment of a separate investment pool for liquidity purposes and another pool to execute the MERF's passive strategy. She stated that Rogerscasey also recommended reducing the percentage of MERF's assets dedicated to its passive allocation to 15%-20% of the total plan assets, based on an asset base of \$1 billion. However, given the current upheaval in the markets, Secretary Devine said, she and Gary Carter, the MERF's director of investments, believed the passive allocation should remain at the current policy level of 25% to 30% of plan assets.

Ms. Steer noted that the MERF had been a pioneer in recognizing the need for a liquidity pool 10 years ago, stating that few other plans had adopted such an approach until quite recently. Ms. Steer emphasized that the term "liquidity" had taken on new meaning since the onset of the credit crisis, necessitating changes in

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the structure of the MERF's Liquidity Fund. The portion of the MERF portfolio dedicated to support the anticipated outflows would be set up to provide "bulletproof" liquidity, she said. The preponderance of these investments should be fixed income securities issued by the US Treasury Department and other governments, Ms. Steer said, adding that the restyled Liquidity Fund will consist of up to four tiers sized to balance the timing and amount of expected cash outflows while providing the ability to opportunistically enhance returns.

Claire Shaughnessy of Rogerscasey then stated that in recommending the size of the Liquidity Fund, Rogerscasey considered industry practices from both defined benefits programs and endowments and foundations, saying that Rogerscasey recommended that the MERF size its Liquidity Fund at 1.5 to 2.0 times its annual benefit payments net of contributions, plus expected private equity funding requirements. The Secretary noted that the size of the fund would fluctuate depending on the market value of the portfolio. Discussion ensued.

**A motion was made, seconded and unanimously adopted to authorize Secretary Devine to adopt the recommended two-tiered approach for restructuring the Liquidity Fund, but maintaining it at the 25%-30% level of passive assets as recommended by Secretary Devine.**

#### **IV. Consideration of Recommendation Regarding Investment in Smith Whiley's Pelham III Fund - Alternative Investments**

Chairman Stevens introduced the item. Secretary Palm Devine noted that she had forwarded a report on a potential \$5 million investment in Smith Whiley's Pelham III Fund in August, and that the Commission had signaled its willingness to make the investment, given the time constraints associated with the fund's November 2008 close. The Secretary, noting that Smith Whiley is an emerging, minority and woman-owned manager, said the Pelham III Fund would make mezzanine loans and direct private equity investments in small to middle market companies. Secretary Devine stated that she, the investment unit staff and Pension Consulting Alliance (PCA), the MERF's alternative investments consultant, had completed both Phase I and Phase II due diligence on the fund and manager and that she was recommending a \$5 million commitment to Pelham III. Discussion ensued.

**A motion was made, seconded and unanimously adopted to authorize Secretary Devine to invest \$5 million in Smith Whiley's Pelham III Fund, pending successful contract negotiations.**

**VI. Other Business**

Chairman Stevens introduced the item. Secretary Devine stated that she had one other item under Investments to put on the agenda, namely, "Consideration of Recommendation to Invest \$10 million in Landmark Equity Partners XIV." Chairman Stevens asked for a motion to add the item on the agenda. A motion was made, seconded and unanimously adopted to add item.

Secretary Devine stated that Landmark Partners is expected to assemble a diversified portfolio of private equity interests with the objective of achieving superior risk adjusted returns and of generating cash distributions to its partners beginning shortly after starting its investment program. She noted PCA's belief that Landmark Equity Partners XIV is an attractive opportunity for investing in a diversified portfolio of private equity partnerships purchased in the secondary markets. Secretary Devine also noted that Landmark has a large and experienced investment team with an established track record of implementing their investment strategy. She noted that both Phase I and Phase II due diligence on the fund had been completed. Discussion ensued.

**A motion was made, seconded and unanimously adopted to authorize Secretary Devine to invest \$10 million with Landmark Equity Partners XIV, L.P., pending successful contract negotiations.**

**There being no further business, Chairman Stevens adjourned the meeting.**

ATTEST: \_\_\_\_\_  
Kathleen Palm Devine, Secretary