CITY OF PHILADELPHIA

SINKING FUND COMMISSION

In Re: May Meeting

- - - - -

Wednesday, May 15, 2019

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This Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned cause, before Michelle Tormey, Court Reporter - Notary Public there being present, held at Two Penn Center, 16th Floor Conference Room on the above date, commencing at approximately 10:05 a.m., pursuant to the State of Pennsylvania General Court Rules.

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1 APPEARANCES
2
3 COMMISSION MEMBERS:
4 Donn Scott, Chairman
5 Kellan White
6 Rasheia Johnson, Treasurer
7
8 ALSO PRESENT:
9 Christopher R. DiFusco, CIO, PGW
10 Marc Ammaturo, PFM Asset Management
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1 CHAIRMAN SCOTT: Good morning,
2 everyone. It is my pleasure to call
3 this meeting of the Sinking Fund
4 Commission to order.
5 The first item on the Agenda is the
6 Approval of the March 13th Minutes.
7 Is there a motion for approval?
8 MS. JOHNSON: Motion.
9 MR. AMMATURO: Second.
10 CHAIRMAN SCOTT: A motion for
11 approval has been made and properly
12 seconded.
13 All those in favor?
14 (Chorus of Ayes.)
15 CHAIRMAN SCOTT: Ayes have it.
16 Motion has been passed.
17 The next item on the Agenda is
18 Asset Allocation Discussion.
19 MR. DIFUSCO: So just a couple
20 comments before I let Marc dive into it.
21 So this is a continuation of the
22 discussion that we started in March.
23 The first -- I'd say, half, roughly --
24 of the slides that you have are a repeat

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1 from last month just to -- you know --
2 keep everybody's memory refreshed as to
3 what we discussed. And then PFM added
4 some additional projections, additional
5 modeling on what the portfolio would
6 look like and without alternatives and
7 at various levels.
8 As I said in the email I sent out a
9 couple days ago, my hope is that through
10 the discussion today, and then
11 subsequent discussions with folks -- you
12 know -- offline -- some of which have
13 started already -- as well as some
14 information -- actuary information that
15 I'll send out in a couple weeks that the
16 Controller's Office requested that I
17 think it would probably be germane to
18 this discussion that we can present a
19 formal recommendation in July along with
20 a blackline IPS because any
21 consideration of alternatives will
22 require changes to the investment
23 policy. So I'm not asking for a vote of
24 any kind -- you know -- today; it was

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1 just to keep the discussion rolling with
2 questions and provide folks with
3 additional information.
4 With that, I'll turn it over to
5 Marc.
6 MR. AMMATURO: Thank you, Chris.
7 So we're behind the red tab. If
8 you want to flip to Slide 6. So, again,
9 as Chris already mentioned, this was
10 presented last time, but just to level
11 set, Slide 6, if you look at the PGW
12 current column, so as you all know, your
13 current targets are 65 equity, 33 fixed
14 income, 2 percent cash. I'm looking at
15 the first column from the far left
16 there, PGW current. What was presented
17 was two portfolios without alternatives.
18 So the first column is 5 percent higher
19 equity. So it's 70 percent equity. You
20 see fixed income goes down to 28
21 percent. If you want to just look to
22 the bottom -- long-term assumption --
23 for that portfolio, expected return is
24 7.1. So even if you ration up your

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1 equity exposure, you're not hitting your
2 target of 7.3 percent. You're hitting
3 7.1. And standard deviation goes up
4 from 10.7 -- under the current model --
5 to 11.4. So, again, volatility goes up,
6 but you're still not hitting your
7 actuarial assumption of 7.3. So the
8 takeaway was why don't we look at some
9 portfolios with alternatives that may
10 hit your 7.3 percent objection because
11 increasing equity was not getting you
12 there.
13 So with that backdrop, if you want
14 to jump all the way ahead to Page 14.
15 So Page 14, the first column again is
16 going to be a mirror image of what we
17 just saw. PGW current, again, think
18 about it, 65 equity, 35 fixed income in
19 cash. What this now shows you is if you
20 layer in alternatives, what does that do
21 to your expected return and your
22 volatility. So there's three models
23 here; one with 5 percent alternatives,
24 one with 7 1/2 percent alternatives, and

Page 7

1 one with 10 percent alternatives. This
2 is a slight modification from the last
3 time we presented this. Last time, we
4 showed models that have all the way up
5 to 20 percent alternatives.
6 If you want to direct your eyes to
7 the column that says, "PGW 7 1/2 percent
8 alternatives," I think that's a good
9 proxy of a diversified portfolio. If
10 you look at equity, it reduces equity
11 from 65 to 60. If you look at fixed
12 income, it reduces fixed income from 33
13 to 30 1/2. And then it layers in 7 1/2
14 percent alternatives. So that 7 1/2
15 percent alternatives is coming both from
16 equities and fixed income to source
17 dispotential alternatives mandate. And
18 you see that the diversifying asset
19 classes, private equity, 2 percent;
20 private real estate, 2 percent; private
21 debt, 3 1/2. That equates to the 7 1/2
22 in alternatives. The interesting
23 takeaway here is if you look at the
24 long-term assumption, look at the

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1 expected return, it's right on top of
2 what you're trying to achieve. 7.3
3 percent is the expected return over the
4 long-term for this diversified portfolio
5 that later is in 7 1/2 percent
6 alternatives.
7 If you look at the standard
8 deviation over the long-term, 10.7
9 percent, you might recall from the prior
10 slide, standard deviation was actually
11 11.4, and now it's down to 10.7 because
12 you're layering in diversifying asset
13 classes or alternatives. And there's a
14 50 percent probability of hitting that
15 7.3 percent return objective.
16 So, again, this was not presented
17 last time -- this 7 1/2 percent scenario
18 of alternatives -- and I wanted to bring
19 that diversified portfolio to your
20 attention because it does hit your
21 expected return of 7.3 percent over the
22 long-term.
23 CHAIRMAN SCOTT: Can I ask some
24 questions?

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1 MR. AMMATURO: Yes, please.
2 CHAIRMAN SCOTT: So from a risk
3 standpoint, are we saying that the
4 option that -- that 7.5 percent option
5 from a risk standpoint is equal to or
6 less than the current?
7 MR. AMMATURO: It's equal to. So
8 if you look at this standard deviation,
9 underneath PGW current, it says, 10.7
10 percent. That deviation, that
11 volatility is not moving up when you
12 layer in alternatives; it stays at 10.7
13 percent. So you're getting a little bit
14 more return because if you look at the
15 expected return on the current model at
16 7.1, and if you look at the expected
17 return with 7 1/2 percent alternatives,
18 it's 7.3. So you're getting a little
19 bit more return, and you're not taking
20 in all additional volatility at risk is
21 how I would interpret that.
22 CHAIRMAN SCOTT: But the
23 probability is lower?
24 MR. AMMATURO: The probability is

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1 higher, it's 50 percent. And it's
2 currently 45 percent.
3 CHAIRMAN SCOTT: I said, for the
4 current?
5 MR. AMMATURO: Oh, I'm sorry.
6 Yeah, it's lower. So there's usually
7 not many free lunches, if you will, but
8 this is one where you're actually
9 increasing your return and volatility is
10 not increasing. So it's kind of a
11 win/win.
12 So let's look at this just a little
13 bit more in detail on Page 16. Page
14 16 -- live numbers here -- I would just
15 look at the 5 year and look at the 50th
16 percentile. This shows you the expected
17 return assuming the markets don't go
18 gangbusters or the markets don't sell
19 off significantly. That's the 50th
20 percentile row and look at the 5 year
21 section of this report. Your return
22 currently is 5.44. If you layer in
23 alternatives, say, 7 1/2, it goes up to
24 5.6. This is the intermediate term,

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1 which is defined as the next 5 years.
2 You know, why is it not hitting 7.3.
3 PFM's capital market assumptions are
4 lower in the short-term than they are
5 for the long-term and that's why you're
6 only getting a return of 5.4 or 5.6 in
7 the short-term. You'll see those
8 numbers jump in the long-term. Again,
9 this is based on intermediate term
10 capital market assumptions; what the
11 market's going to be over the next 5
12 years.
13 Looking at it in terms of numbers
14 on Page 17 -- so, again, I would just
15 look at the 5 year column in the 50th
16 percentile row, this assumes
17 $530,000,000 with 24 million of annual
18 outflows. And if you look at the 5 year
19 section of the page, the 50th
20 percentile, if you don't do anything,
21 you stay in your current portfolio, you
22 can expect that portfolio to grow to 548
23 million. If you layer in alternatives
24 in let's say 7 1/2 percent scenario, you

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1 can expect your portfolio over 5 years
2 to be 554 million. Again, slightly
3 greater return assumption. So, needless
4 to say, that's going to result in a
5 higher fund balance over the next 5
6 years.
7 So now we get into long-term,
8 that's intermediate term. I would look
9 at Slide 19. Slide 19, I would look at
10 the far right on Slide 19, the 30-year
11 scenario. Again, we're thinking about
12 not what markets are doing today, but
13 what they're going to do for 30 years
14 out. So I would look at the 30-year
15 scenario to the far right. I would look
16 at the 50th percentile row. If you
17 don't do anything in PGW current and
18 stay static, your expected return over
19 the long-term is 7.14. If you look at
20 the 7 1/2 percent scenario, it's 7.3.
21 Again, that's the same number that we've
22 talked about on the summary slide. Over
23 the long-term, we expect this portfolio
24 to generate 7.3 percent. If you don't

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1 do anything, you just stay static at the
2 portfolio today, you can expect a return
3 of 7.14. Again, this is 30 years out.
4 If you look at it on a numbers
5 basis, the numbers are quite large.
6 Because this is 30 years out, it's the
7 benefits of compounding interest. But
8 if you look at the 30 year section of
9 the page on Page 20, and you look at the
10 50th percentile, you're looking at a
11 return of 1.6 billion. Again, this is
12 30 years out and a 7 1/2 percent
13 scenario of 1.7 billion just to show you
14 the benefits of compounding investment
15 returns creates 100 extra million over
16 30 years.
17 So, again, that's the numbers I
18 wanted to share with you. The next
19 section -- is there any questions there
20 in terms of probability of returns or
21 increase in fund balance?
22 (No response.)
23 The next section gets into --
24 okay -- let's assume just for

Page 14

1 conversation-sake you assume -- you
2 agree 7 1/2 percent seems reasonable,
3 where will that 7 1/2 percent be
4 invested. So on 22 we show you three
5 asset classes within alternatives;
6 private real estate, private debt, and
7 private equity. So they're three
8 sub-asset classes within the
9 alternatives component of a diversified
10 portfolio that you could entertain.
11 Again, that would be sourced both from
12 equity and fixed income. You see the
13 current portfolio, you don't have any
14 alternatives. You look to the right --
15 again -- it's coming both from equity
16 and fixed income. Y -- on Slide 23 -- Y
17 alternatives. We can just walk through
18 the numbers. The numbers are quite
19 compelling. Why are the numbers
20 compelling? Well, it's adding to the
21 diversity of your portfolio. So when
22 the market sells off like it sold off
23 last week because of the tariff rhetoric
24 and the tariff wars, privates aren't

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1 impacted by the day-to-day volatility of
2 the stock market. These are private
3 investments. They are investments
4 outside of the stock market, outside of
5 the bottom market that trades daily. A
6 lot of these private portfolios are
7 valued monthly, if not quarterly. So,
8 again, it's not prone to the daily
9 market volatility. So you're enhancing
10 the diversification of that of your
11 portfolio. And the returns aren't
12 correlated. So, again, if the stock
13 market sells off, it doesn't necessarily
14 mean your private equity portfolio is
15 going to sell off. These are private
16 companies, not stocks that trade and are
17 prone to daily market volatility.
18 So we go into gory detail on these
19 next pages on these asset classes. They
20 remain rather high level, but on Slide
21 24 it gives you -- again -- a rundown of
22 the private debt, private equity, and
23 real estate. On Slide 25, it starts to
24 go into these asset classes

Page 16

1 individually.
2 So first is private debt. So,
3 again, this is another potential asset
4 class you want to consider if you go
5 down the road of investing in
6 alternatives. I'll give you a simple
7 example of what private debt means. PFM
8 is a private company; it's owned by the
9 partners at PFM. If there's an
10 investment manager out there and PFM
11 wants to take out debt, we can go to an
12 institution -- that's not a bank -- a
13 money manager that could lend us money.
14 And then you potentially would invest in
15 that portfolio of loans that that
16 manager grants to private companies.
17 So, again, that's private debt. PFM
18 obviously does not trade in the stock
19 market. We're a privately held company,
20 but we can have debt in our balance
21 sheet. We could have that debt from a
22 third party that's a money manager that
23 you could invest in. You'll be
24 investing in a portfolio of debt held by

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1 this investment manager. Again, it's
2 debt held by private companies, not
3 companies that trade daily in stock
4 market. So it's illiquid and it --
5 again -- doesn't trade every day like a
6 stock or a bond; it's illiquid. So you
7 need to think through that, does PGW
8 want to incur some illiquidity, if you
9 will. But it's not correlated to the
10 overall market; it's not correlated to
11 the overall bond market. So that's the
12 positives.
13 In private equity on Slide 27,
14 think through a similar example. Again,
15 PFM is a private company. There could
16 be a manager out there that wants to own
17 some of the equity of PFM. So right now
18 PFM and all the equity is held by the
19 partners of the firm, there could be an
20 investment manager out there saying, I
21 want to own some of the equity in PFM.
22 Well then you could potentially invest
23 in that investment manager, that
24 investment manager that invests -- makes

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1 equity contributions to private
2 companies. So that money manager is an
3 example of an investment you could make.
4 It wouldn't be just that one; it would
5 be a diversified portfolio of companies
6 that make investments in private
7 companies. Again, PFM doesn't trade
8 from a stock market, but it's privately
9 held but there's illiquidity there, but
10 it's not correlated to the overall
11 market. It's very similar to private
12 debt in terms of how it's structured and
13 the nature of the investment.
14 Then, real estate. Real estate on
15 Slide 28. So real estate. So you can
16 trade in real estate in the stock market
17 by buying a REIT, which is a Real Estate
18 Investment Trust. You could also invest
19 in real estate privately. So a manager
20 that makes direct investments in condos
21 or apartment buildings or office space.
22 So, again, it's direct investments in
23 properties; it's not stocks that
24 represent real estate companies. It's

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1 an investment in a private company that
2 makes these investments directly in real
3 estate. So, again, it's investing
4 outside of the market, not being
5 succumbed to the volatility of the
6 overall market.
7 On Slide 30, there's three
8 different ways to invest in real estate.
9 And you can invest in what's known as an
10 income generating real estate
11 investment. So just think of like the
12 rent or the yield on a property, that's
13 what you're going to be earning on that
14 investment, or a core investment is
15 where you're looking for the real estate
16 to appreciate in value. So you want
17 that office space to appreciate in value
18 in addition to getting the yield or the
19 rental income from the property. And
20 that's what we mean by core. Value-add
21 means you're investing in properties
22 that need some work. They're kind of a
23 rebuild, and you see return potential in
24 that rebuild in addition to the yield it

Page 20

1 turns off. So there's different ways to
2 invest in real estate is to take away
3 this slide. No need to dive deeper at
4 this time, but just to give you examples
5 of different ways to invest in real
6 estate.
7 Slide 32 shows you kind of the
8 funding timeline. So one thing you need
9 to be aware of is if let's say we invest
10 7 percent alternatives, it's not going
11 to be you invest 7 percent tomorrow;
12 it's going to take time. So these
13 private investments are what's known as
14 capital calls. They call capital from
15 PGW overtime as they see investments
16 they want to make. So this shows you
17 that you can get the 7 1/2 percent, but
18 it most likely will take you up to 5
19 years. So they're investing in
20 companies, but as soon as they're
21 investing in companies, they are
22 probably also selling some companies.
23 When they sell some companies, they
24 return capital of PGW. So when they

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1 return capital, your allocation is
2 actually coming down because they're
3 returning capital-realized gains --
4 hopefully -- to you, the investor. So
5 as they return capital to you, your
6 balance goes down. At the same time
7 you're doing capital calls, you're
8 contributing money to them. So it's a
9 little of give and take -- if you
10 will -- which takes time to build up to
11 a 7 1/2 percent allocation we're saying
12 roughly 5 years. Does that all make
13 sense? And you probably would -- I
14 would say -- invest in one of these at a
15 time. You don't need to invest in all
16 three at the same time. You would do it
17 in a step approach. And we can talk
18 about what makes sense -- which asset
19 class makes sense to invest in first if
20 this is the direction PGW wants to move
21 forward with.
22 Does that all make sense?
23 MR. WHITE: What's the advantage of
24 investing in multiple forms of

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1 alternatives rather than just investing
2 in, say, private equity or real estate?
3 MR. AMMATURO: That's a good
4 question, Kellan. I would look at Slide
5 3.
6 CHAIRMAN SCOTT: What page?
7 MR. AMMATURO: Slide 3, behind the
8 red tab. So I would look at the bottom
9 of Slide 3. So you see private real
10 estate, there? You see private equity
11 and you see private debt? Their returns
12 are fairly similar over -- this is PFM's
13 expected returns for these asset
14 classes. Look at the volatility. The
15 volatility is very different. So to
16 answer Kellan's question, if you were
17 just to invest in private equity, you
18 can expect a return of 7.1 over the next
19 5 years. But look at the volatility,
20 it's off the charts. 25 percent is
21 very, very volatile. So why invest in
22 more than one alternative? You want to
23 dampen that volatility by introducing
24 private real estate, which only has

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1 expected risk of 15 private debt, which
2 only has standard deviation of 13. So
3 even within alternatives, you want to
4 diversify or bring down the volatility
5 of the asset class.
6 Does that make sense?
7 MR. WHITE: Yeah.
8 MR. AMMATURO: I mean, that's the
9 main reason.
10 CHAIRMAN SCOTT: Let me ask a
11 question.
12 Can we assume that the City of
13 Philadelphia's Pension Plan is already
14 utilized the strategy? Is that
15 accurate?
16 MR. DIFUSCO: Yes.
17 CHAIRMAN SCOTT: And that the
18 benefits -- that the expected benefits
19 materialized?
20 MR. DIFUSCO: We have a higher
21 allocation than the proposal here to
22 private equity; it's between 10 and 12
23 percent since the inception of the
24 program which dates back to the mid- to

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1 late '80s, it's returned roughly 10
2 percent over the last call it 12 years
3 just around the time of the financial
4 crisis before/after it's returned 15
5 percent.
6 To Marc's point, it's done so while
7 not being correlated to -- you know --
8 the other asset classes. You don't see
9 the drastic swings in private equity the
10 way you have in -- we do have private
11 real estate. We've also recently
12 used -- as opposed to doing locked up
13 private real estate, we've introduced
14 more core open-end real estate which I
15 know PFM mentions here. That generally
16 has monthly or quarterly liquidity. So
17 you're not locked up as long as you are
18 in private real estate. And we've seen
19 positive results from that, as well.
20 I think -- you know -- even more so
21 than in public market fixed income, or
22 public market equities, manager
23 selection and fee negotiations are even
24 more important in private equity,

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1 private real estate, private debt than
2 they are -- I'm not saying they're
3 unimportant with the over asset
4 classes -- but they become even more
5 important. You want access to the best
6 managers. You want to negotiate the
7 best terms possible on fees and other
8 business items -- you know -- in
9 conjunction with the law department.
10 But I would say, yes, we have seen
11 tangible benefits from private equity
12 long-term, and I would say more recently
13 from the real estate portfolio.
14 CHAIRMAN SCOTT: Thank you.
15 MR. AMMATURO: So the last slide I
16 had was 33 talking about next steps that
17 Chris already verbalized most of this.
18 The next steps would be in July when
19 we're next together to approve --
20 potentially approve alternative -- as an
21 asset class, right now, you should be
22 aware it's not permitted in your
23 investment policy statement. So we need
24 an addendum to investment policy

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1 statements to talk around that. We need
2 to talk around if you do approve it,
3 what is the target -- we have some
4 recommendations here -- and what's the
5 range for each individual asset class
6 within alternatives. As it says here,
7 drafted approval of investment policy
8 statement amendment, which I just
9 mentioned. Then, we would entertain
10 bringing managers in to see who PGW
11 wants to move forward with. And then
12 you make some initial capital calls,
13 which is -- again -- how you're moving
14 money toward those managers. That's
15 referred to as capital call, as they
16 make a call of capital as they see
17 investments to make.
18 So this -- again -- was more of a
19 high-level overview of kind of
20 diversifying the alternatives and
21 showing you sample alternative asset
22 classes. And the next steps would kind
23 of be in July to take this conversation
24 further into action.

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1 CHAIRMAN SCOTT: It seems like the
2 appropriate next step to me.
3 MS. JOHNSON: It all makes sense.
4 Chris, I just have another
5 question.
6 MR. DIFUSCO: Sure.
7 MS. JOHNSON: This all makes sense
8 to me, but should -- instead of almost
9 like chasing returns -- should we be
10 looking at what our expected rate of
11 return is for this portfolio in
12 conjunction -- like -- looking at it
13 holistically instead of piece by piece.
14 MR. DIFUSCO: I think that's a --
15 yes, that's something -- you know --
16 Rob's brought up with me individually.
17 I think the controllers brought that up
18 in the larger fund. I think that's
19 partially the reason -- you know --
20 we'll be setting around some of the
21 updated materials from the actuary. So,
22 yeah, I do think that makes sense. To
23 Marc's point, even if we were to lower
24 the assumed rate -- just as an

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1 example -- and I'm not -- but even if we
2 were to lower the assumed rate of return
3 to 7 percent coming down a full 30 basis
4 points and stay at the asset allocation
5 we were at, we'd still have less than a
6 50 percent chance of getting to our
7 return. Even if we upped the equity at
8 5 percent higher, which would be taking
9 on significantly more risk, we'd only
10 have a 40 percent chance of getting
11 there. So I do think we should have a
12 larger, more holistic conversation. I
13 just think we need to keep that in mind
14 that the assumed rate of return is
15 something that is reviewed every year.
16 And then based on the discussions here,
17 the actuarial material that's presented,
18 the finance director will issue
19 instructions to PGW and to the staff as
20 to what it should be. That's something
21 he does around September, as you know.
22 So, yeah, I think that should be part of
23 the conversation moving forward.
24 CHAIRMAN SCOTT: I'm just trying to

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1 understand.
2 The City of Philadelphia moved in
3 this direction in 1980?
4 MR. DIFUSCO: That was the infancy
5 of the private equity program, yeah.
6 CHAIRMAN SCOTT: And in moving --
7 the City, as a result of that strategy,
8 received a higher return on its
9 portfolio over time?
10 MR. DIFUSCO: No. It received a
11 higher rate of return on certain asset
12 classes. I would say, in the infancy of
13 the private equity program, there were a
14 lot of investments that the City would
15 not make again such as venture capital,
16 things of that nature which we would not
17 recommend for this portfolio and for --
18 which are no longer recommended at the
19 large fund which -- while the City did
20 choose a lot of good funds, those poor
21 selections ultimately -- you know -- had
22 a negative effect on returns. That was
23 part of the reason for my statement that
24 manager selection and fee negotiations

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1 are so critical -- you know -- in this
2 asset class because if you take
3 expansive risk in start-ups or in
4 venture capital -- things of that
5 nature -- you can really -- yeah, you
6 can hit a home run, you could find the
7 next Facebook, you could find the
8 next -- but there's also a much greater
9 chance that you're going to lose most or
10 all of the money. So that's not the
11 kind of investment we've been talking
12 about here with private equity or real
13 estate.
14 CHAIRMAN SCOTT: Okay. So it's not
15 that we should have made decisions
16 sooner to move in this direction?
17 MR. DIFUSCO: No.
18 CHAIRMAN SCOTT: Okay.
19 Any other questions on this topic?
20 MR. WHITE: No, sir.
21 CHAIRMAN SCOTT: So what do we have
22 here, Investment Performance Review?
23 MR. DIFUSCO: Just a couple of
24 notes, and then I think Marc's going to

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1 spend -- it makes sense to spend a bulk
2 of the time on the April flash report
3 which he handed out this morning. The
4 assets in the plan -- as of the market
5 open this morning -- were just under
6 536 million. That's post made benefit
7 payment. We had a request or
8 recommendation -- which I think is a
9 good one -- we've recently did the big
10 fund from the controller -- just to note
11 on the flash reports going forward --
12 which managers have been terminated or
13 are in the process of being liquidated.
14 So we'll ask PFM to note that going
15 forward. That would apply to three of
16 the four international managers, as well
17 as Eagle and Vaughan.
18 And the last announcement just
19 being that it appears -- based on where
20 we are with the contracts and the market
21 openings where we should be by Friday --
22 that we should be able to begin moving
23 the money from DFA and Harding to the
24 managers that the Commissioners

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1 selected -- Earnest and Acadian --
2 within the next two weeks. Once I get
3 through that process, then I'll turn my
4 attention to Eagle and Vaughan which
5 will be a combination of index manager, .
6 and then Copeland who is a recent hire.
7 So those were the three
8 announcements I had, and Marc's going to
9 focus mainly on the April flash report.
10 MR. AMMATURO: I'll just point out
11 one number on the March before we jump
12 into April -- just so you have an
13 appreciation for the first quarter --
14 briefly.
15 Behind the blue tab, top row, last
16 tab in the book. I just want to point
17 out one number. The top row on that
18 page shows you that it's quarterly
19 return. As of March 31st for the first
20 quarter, the markers were exceptionally
21 strong. Your portfolio was up 9.7
22 percent verse a benchmark of 9.3
23 percent -- if everyone sees where I'm
24 looking at -- 9.74 verse a benchmark of

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1 9.37. The main reason why on an
2 absolute basis, it's a very strong
3 number, but it's also a strong number on
4 a relative basis. The main reason why
5 you're doing well on a relative basis is
6 because you're overweight the equity
7 markets. The stock market was up 14
8 percent from the first three months of
9 the year. International stock market
10 was up about 10 percent in that first
11 three months of the year. Your
12 portfolio is up -- is overweight
13 equities by about 4 percent. So your
14 target is 65 equities, but if you look
15 at your actual balance in your portfolio
16 in the first quarter, it's roughly 69
17 percent equities. So being overweight
18 by 4 percent is going to help you
19 relative to a target that assumes you're
20 always sitting at 65 percent equities.
21 So that's the only number I wanted to
22 point out on that.
23 I wanted to -- again, that's Chris
24 mentioning to look at the April flash

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1 report. This is hot off the presses.
2 We just got this. This was the handout
3 I passed out, so no colored tabs to be
4 worried about. This is a handout. So
5 the uptick in the markets continued in
6 the month of April. So if you look at
7 the 1 month column, again, that 1 month
8 column just represents the month of
9 April. Your portfolio was up another 2
10 percent; 2.59 just in the month of
11 April. If you look at the year-to-date
12 column, again, it was 9.7 in the book,
13 and it's now 12.5. So, again, 12.5
14 percent return just in the first four
15 months of the calendar year. Very
16 strong -- obviously -- on an absolute
17 basis, but it continues to be strong on
18 a relative basis. I think you know the
19 answer to why -- on a relative basis --
20 it's because you continue to be
21 overweight the equity markets, and the
22 equity markets continue to appreciate in
23 April more than the bond market. The
24 stock market -- you know -- through

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1 April was up 18 percent. The stock
2 market through April internationally was
3 up 13 percent. And the bond market --
4 through April -- was up about 3 percent.
5 So, obviously, when you're overweight
6 equities that are up double digits
7 relative to bonds -- which is up 3
8 percent -- you're not only going to do
9 well on an absolute basis, but you're
10 going to do well on a relative basis.
11 So the first section going down --
12 I'll concentrate mostly on the
13 year-to-date column -- if you look at
14 the large cap, this is mostly indexed --
15 you know -- through Rhumbline and
16 Northern Trust. So if you look at the
17 year-to-date column, you're going to see
18 returns very close to the benchmark.
19 The more recent addition is PineBridge.
20 PineBridge has not kept up with the
21 rally totally. They're up 16.7 for the
22 first four months of the year. The
23 benchmark's up 18. They just got hired
24 in November of 2017. Now, they've had

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1 some stocks in the health care sector
2 that have held the relative performance
3 back. Again they're up 16.7. The
4 benchmark's up 18.2.
5 On the small cap side -- not only
6 strong on an absolute basis, but strong
7 on a relative basis -- 20 percent on a
8 year-to-date verse a benchmark that's up
9 18. Most of that is attributable to
10 Vaughan Nelson -- which is up 19.6 --
11 relative to a benchmark of 16. As Chris
12 mentioned, both of these managers --
13 Vaughan Nelson and Eagle -- are in the
14 process of being terminated and replaced
15 by Copeland and a Rhumbline Index Fund.
16 On the international equities
17 side -- similar theme to small cap --
18 slight outperformance. So if you look
19 at the year-to-date column, 13.4 verse
20 13.2, most of that -- incremental return
21 above the benchmark -- is attributable
22 to Mondrian, slash, Delaware. They're
23 up 11.8 for the year. The benchmark's
24 up 10.4. So that's really the reason

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1 why you're outperforming at the asset
2 class level. As Chris mentioned,
3 Mondrian, Harding Loevner, and DFA are
4 all in the process of being terminated
5 and replaced with two new managers,
6 Earnest and Acadian.
7 On the flip side, combined fixed
8 income, again, similar theme. The
9 year-to-date column fairly strong on an
10 absolute basis of 3.7, but even better
11 on a relative basis, the bond market is
12 up 2.9. Your bond managers in the
13 Aggregate are up 3.7. Why is that? I
14 would say the main reason is your high
15 yield allocation. The last manager
16 listed says, Sky Harbor. Look at their
17 year-to-date return, it's 8 percent.
18 Even though it's not keeping up with the
19 benchmark, it's 8 percent, where your
20 overall bond market is only up 2.9.
21 There is no high yield in the benchmark.
22 So if you look up to the top, you're up
23 3.7, the benchmark -- the U.S. Aggregate
24 is up 2.9. Again, that's significant

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1 outperformance; it's largely driven by
2 the fact you have a roughly 2 1/2
3 percent allocation to high yield that's
4 up 8 percent for the year, and there's
5 no high yield in the benchmark. That
6 was a conscious decision to layer in
7 high yield. All the other managers are
8 fairly benchmark-like -- you know --
9 they're outperforming, Weaver Barksdale,
10 Logan Circle, Lazard, all three of those
11 managers are outperforming. And then
12 you get it down to Sky Harbor, and
13 they're up -- you know -- more than
14 double, but the bond market's up 8
15 percent relative to 3 percent. And
16 they're a recent addition -- as you know
17 in April of last year -- Sky Harbor. So
18 that's the rundown in the portfolio
19 through April.
20 Is there questions I can entertain?
21 CHAIRMAN SCOTT: Well done.
22 MR. AMMATURO: Thank you.
23 CHAIRMAN SCOTT: The next item is
24 New Business.

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1 MR. DIFUSCO: I just have a
2 request. We're around the deadline or
3 the time that we need to do the City
4 Contracting Requirements Post in RFP for
5 the Custodial Banking Services that
6 Wells currently provides. So I just
7 need a motion to float that RFP, and
8 then we would go through the similar
9 process we did with manager selection.
10 So PFM, myself, would meet up with
11 respondents, write up a report, bring
12 appropriate parties in -- you know -- to
13 a public meeting for discussion, and
14 then a vote. But I do need a motion to
15 move that process forward.
16 CHAIRMAN SCOTT: Is there a motion?
17 MR. WHITE: Motion.
18 MS. JOHNSON: Second.
19 CHAIRMAN SCOTT: All those in
20 favor?
21 MS. JOHNSON: Aye.
22 MR. WHITE: Aye.
23 CHAIRMAN SCOTT: Ayes have it.
24 MR. DIFUSCO: Thank you.

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1 And the next meeting -- just as a
2 reminder -- is on a Thursday, July 11th.
3 I know we normally meet on Wednesday,
4 but we has circulated that date. So our
5 next meeting is on Thursday, July 11th
6 at 10 o'clock.
7 CHAIRMAN SCOTT: Thank you.
8 - - - - -
9 (Sinking Funds Commission
10 Meeting adjourned at 10:45 a.m.)
11 - - - - -
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1 CERTIFICATION
2
3
4 I hereby certify that the proceedings
5 and evidence noted are contained fully and
6 accurately in the stenographic notes taken by
7 me in the foregoing matter, and that this is
8 a correct transcript of the same.
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13 ______________________
14 Court Reporter-Notary Public
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21 of this transcript does not apply to any
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24 of the certifying reporter.)

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