CITY OF PHILADELPHIA
SINKING FUND COMMISSION

In Re: Quarterly Meeting

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Wednesday, November 12, 2014
Philadelphia, Pennsylvania

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This Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned cause before Wanda Barnum, Court Reporter and Notary Public in and for the Commonwealth of Pennsylvania, held at Two Penn Center, 16th Floor Conference Room, on the above date, commencing at approximately 11:10 a.m., pursuant to the State of Pennsylvania General Court Rules.

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APPEARANCES:

COMMISSION MEMBERS:

Benjamin Gilbert, Chairman

Alan Butkovitz, Commissioner

Nancy Winkler, Commissioner

Bill Rubin, Alternate for Mr. Butkovitz

ALSO PRESENT:

Charles Jones, Executive Director

Christopher DiFusco, Chief Investment Officer-PGWPP

Frank Domiesen, Gallagher Fiduciary Advisors

ALSO PRESENT:

Richard Sensenbrenner, Office of Finance

Eric Strauss, Withum, Smith & Brown

Lawrence Berman, Israel Bonds

Glenn Segal, Israel Bonds

Kate Janoski, City Law Department

Vincent J. Jannetti, PGW

Janet Werner, Wells Fargo

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MR. GILBERT: We'll call the meeting together.

The transcript of the special meeting for July 16th was circulated by way of email. Are there any additions or corrections to those minutes?

Hearing none, I have a motion to approve the transcripts?

MS. WINKLER: Motion to approve.

MR. RUBIN: Second.

MR. GILBERT: Properly move to second. Any questions on the motion?

All those in favor?

MS. WINKLER: Aye.

MR. GILBERT: Motion carries.

Quarterly meeting statements and quarterly meeting minutes for September 10th were also circulated by email. Are there any questions or corrections to those minutes?

Hearing none, I have a motion to approve?

MS. WINKLER: I wasn't in

attendance.

MR. RUBIN: Neither was I.

MR. GILBERT: Say again.

MS. WINKLER: Neither of us were in attendance.

MR. RUBIN: Neither of us were in attendance.

MR. GILBERT: I was there.

MR. DiFUSCO: We could table them for the next meeting or until next time, you know.

MR. GILBERT: Is there a motion to table the minutes for September 10th?

MS. WINKLER: Motion to table.

MR. RUBIN: Second.

MR. GILBERT: Properly moved and seconded.

Any questions on the motion?

Motion carries.

The Sinking Fund statements for September 30, 2014 was circulated by email. Are there any questions on those statements?

Hearing none, may I have a motion to approve the Sinking Fund statements for

September 30, 2014?

MS. WINKLER: Motion to approve.

MR. RUBIN: Second.

MR. GILBERT: Properly moved and seconded.

Any questions on the motion?

All those in favor?

MS. WINKLER: Aye.

MR. RUBIN: Aye.

MR. GILBERT: The motion carries.

PGW Pension Fund statements for September 30th were also circulated. Are there any questions on those statements?

Hearing none, I have a motion to approve the PGW Pension Fund statements?

MS. WINKLER: So moved.

MR. RUBIN: Second.

MR. GILBERT: Properly moved the second.

Any questions on the motion?

All those in favor?

MS. WINKLER: Aye.

MR. RUBIN: Aye.

MR. GILBERT: Motion carries.

We will now have a discussion on the effect of Governmental Accounting Standards Board's Statements 67 of 68 related to the financial reporting for pensions.

MR. JONES: This is Eric Strauss. He's from Withum, Smith and Brown. They are the auditors for the PGW Pension Plan. And this is Mr. Sensenbrenner. He's from the Office of Finance. He's the lead accountant on the Pension Plan statements.

You're going to be conveying to the Sinking Fund Commission. It's made up of Ben Gilbert, Nancy Winkler and Bill Rubin, and on occasion, Alan Butkovitz.

So we will give you a half an hour to present to the Commission. And if need be, I'll give you a five-minute warning.

MR. SENSENBRENNER: I would like to introduce to you from my staff, Bill Bradley and Jeannette Williams. And Bill -- I got too much of the credit there, Charlie. Bill actually does all the accounting work to keep the city's books in line every month. And Janet supervises -- is the accounting supervisor for that section. So I want to thank them for all the good work they do.

MR. STRAUSS: I'm going to apologize up front. We are a paperless firm, but I'm going to inundate you with some paper. I thought it would be easier to follow along.

So what I tried to do here -- and I'll give credit to Rich -- this was the -- I'll call it the agenda, the outline of our last meeting when we had the initial discussion around GASB 67 and 68. And as you can see, it was pretty involved. Worth noting here as far as your numbers when you do get the audit report, the numbers themselves are not changing. It just doesn't have any effect on the numbers within the actual statements. What you will note here is the big effect here is the footnote disclosure and the required supplemental information. And what I attempted to do, again in an attempt for sort of ease of following along, I've actually given in your package -- so the background to this, the actual GASB itself, which I don't expect anybody to read, or at least read in depth. And then I've also given in the same package a copy of where the financial statements stand today. That is in here for June of '14. And I thought it made sense to kind of go through those, as well as the June of '13 statement so you can kind of side by side comparison of what's changed.

There are some very minor holes in the disclosures and in the supplemental information primarily because we are still waiting for some actuarial information which we are following up as we speak.

So with that being said, as you go down the implementation chart that Rich did a great job putting together, you're going to see as far as footnote disclosures there's some additional or changes I should say to the footnote disclosure around the type of plan. And again, if you could kind of follow along. I think we are missing a page here. We are missing a page. Okay.

MS. WINKLER: I'm sorry. What page

do you want us to be on?

MR. STRAUSS: Unfortunately, I believe we are missing a page here out of this package. Off to a good start.

Essentially there are changes to the description of the plan. They're very minor. Most of the disclosure, if you look at the prior year, is essentially the same, which you should have June of '13. Everybody follow along with that? Okay.

Again, there's some minor tweaks to this with regard to GASB 67, but essentially I would say 90 percent of this plan description is staying the same. It's not changing. We're just adding some additional items.

MS. WINKLER: What are the additional items you will be adding?

MR. STRAUSS: There's some reference to the governing body, specifically this body who sits on this body. Obviously the controller, the city controller, and just the description of some of the other board members is one of the major areas that's changing. And I do apologize for that. Of course, it's the first page. I didn't want to miss that one.

But in any event, we'll move on to the next area where it talks about investment policies, and then also the target asset allocation. If you look at page 7 of the 2014 financials again, this is as it stands today and it's highlighted as you can see. It's very brief. We are going to ask your -- and forgive me, I forget his name. Chris --

MS. WINKLER: DiFusco.

MR. STRAUSS: Yes, that's it. To take a real hard look at this to either add, subtract, expand, but this is as it stands today and it just talks about -- you know, it makes reference to, you know, your policies as described. And it also makes reference to some of the targets we're looking for, which should be familiar to this board in terms of the mix of investments. Again, that's something in the GASB itself.

It talks about the next item money weighted return on plan investment. That is also disclosed in these financials. Let's see if we can find that for you. That's also I believe under the same footnote. One sentence, the annual money weighted return fiscal year '14.

Then we have the net pension liability, the discount rate all going on to the next page, page 11.

MR. JONES: Can I ask a question here, Eric?

MR. STRAUSS: Sure. Please do.

MR. JONES: This top part references June 30th?

MR. STRAUSS: Yes.

MR. JONES: And this bottom table references August 31st?

MR. STRAUSS: Yes.

MR. JONES: Should they be consistent or what?

MR. STRAUSS: That is acceptable in terms of the required disclosure. Should they be consistent? I would say they should be consistent. You would have to ask the actuary to go back and redo that information as of June, which you should be able to do.

MR. JONES: I can provide all of this information, you know, other than that --

MR. STRAUSS: Please do. So this is getting pulled directly from what the actuary has provided us.

MR. JONES: I know I provided you this.

MR. STRAUSS: I thought that came in the same package. Fine.

MR. JONES: So this should be June 30th, okay.

MR. STRAUSS: Yes, which clearly would tie. Okay. And I mentioned earlier to on the side, I'll email you these documents.

MR. JONES: Okay.

MR. STRAUSS: Okay. So then we talk about long-term expected rate of return. Again, another disclosure here.

MS. WINKLER: I'm sorry. Where is

that, please? What page are you on?

MR. STRAUSS: So we should be on page -- drum roll here. It should be on the same page, page 7, because I'm missing it now. I'm sure I'm missing it, Rich, on your end. I am not seeing it, but I know it is in here. Let me come back to that one.

The next area is the --

MR. DiFUSCO: Page 12 of the 2013. It's on the very last page, third line from the bottom.

MR. STRAUSS: It's in the supplemental information. I apologize. It's in the supplemental information.

As far as the discount rates, the net pension liability discount rates, the one percent decrease, one percent increase disclosure, that's page 11 of 2014. Does everybody see that? That is highlighted. And again, this is just another disclosure.

MS. WINKLER: I have a question.

MR. STRAUSS: Sure.

MS. WINKLER: I thought that we had voted to change the discount rate to 7.85

percent?

MR. JONES: No, we did not.

MR. RUBIN: I thought so, too.

MR. JONES: I'm sorry. We talked about it.

MR. RUBIN: I thought we conformed to what the pension boards --

MR. JONES: No. I'm sorry.

MR. DiFUSCO: We got the presentation from the actuary. We took it under advisement, but no formal vote was taken. We're free to do that at any time, but we have not taken that vote.

MR. RUBIN: Was that at the last meeting?

MR. JONES: That was probably at the July meeting.

MS. WINKLER: So I think we took it under advisement and then it was to happen at the September meeting.

MR. JONES: And it did not.

MS. WINKLER: Was it on the agenda for the September meeting?

MR. JONES: I don't believe so.

MS. WINKLER: My recollection was that we had asked for some analysis around what return we should get and Frank was going to provide -- Frank Domiesen.

MR. BUTKOVITZ: We never locked in because we didn't feel the liabilities of ours locked up with the liabilities, so there was no reason to use the same number until we had a word from Rich.

MR. GILBERT: Well, do you want to make a motion now?

MS. WINKLER: I'd be interested to see the -- you said Frank provided information, but it just wasn't on the agenda?

MR. DiFUSCO: And then I believe that was the meeting that you weren't there. So that was another issue from our --

MR. BUTKOVITZ: So should we vote?

MS. WINKLER: What did you recommend, Frank?

MR. DOMIESEN: I don't remember, but I don't have it in front of me right now.

MR. BUTKOVITZ: Well, I mean, the

reason for the assumed rate of return was what people expect the marketplace to actually reflect. I mean, the fact that we're more solvent than the pension fund is neither here nor there.

MS. WINKLER: I agree with that.

MR. BUTKOVITZ: And at 7.85 is much too high for the industry.

MR. DOMIESEN: We didn't have 7.85.

MS. WINKLER: Was it 7.65? I'm remembering 7.6 or 7.65.

MR. DOMIESEN: Under the current strategy, that would be closer to that 7.65.

MR. BUTKOVITZ: Okay. So let's go 7.65. So then the concern is the opposite, that we will be pulling down -- or we will be creating a precedent that's going to pull down the pension board toward our targeted number, right? Wasn't that the nature of the discussion?

MS. WINKLER: I mean, I wasn't considering that.

MR. BUTKOVITZ: Is that the problem?

MS. WINKLER: I just wanted to have

something that was realistic. As I understand it now, PGW has adopted its budget for fiscal '15 and is funding at the -- you're funding at the 7.95 level. So if we adopt a change, how does that affect PGW's budget in this current fiscal year, or does it only affect the next succeeding fiscal year?

MR. BUTKOVITZ: Well, we could structure it so that it goes into effect with the new budget.

MS. WINKLER: Sure.

MR. BUTKOVITZ: Why don't we do that?

MS. WINKLER: Fiscal '16.

MR. BUTKOVITZ: Why don't we get it out of the way?

MR. GILBERT: So what's your pleasure?

MR. BUTKOVITZ: Well, I make that we reduce that rate to 7.65 percent effective with the 2015-16 PGW budget.

MR. GILBERT: Second?

MS. WINKLER: Can I just ask if

staff has any concerns or any -- do you mind if I ask that question?

MR. BUTKOVITZ: No. But you could second it first.

MS. WINKLER: I'll second it and I'll ask the question. Second it and then ask.

MR. DiFUSCO: No. I mean, purely from an investment perspective, then obviously we'll, you know, undertake the due diligence and work to make sure that the investments match up accordingly, you know, risk return wise with the 7.65 rate of return.

MS. WINKLER: Is that an issue for PGW?

MR. JANNETTI: Contributions will probably go up. I don't know how much. You know, it's something that you have to figure out. Definitely if you're lowering the earnings or something contributions will go up.

MR. GILBERT: Any other questions? All those in favor?

MR. BUTKOVITZ: Aye.

MS. WINKLER: Aye.

MR. GILBERT: Motion carries.

MR. STRAUSS: Okay. So with regard to just moving on down this agenda, so to speak, some of the additional information required supplemental information is also in this package. But we, unfortunately, still have some holes here in terms of -- turn to page -- I believe it's page 11. There are some holes here with regard to -- it's the second page 11 -- some actuary information that you're not going to see. Yes, two page 11's. We are unfortunately still missing some actuarial information, which we are again currently working on getting, but this is just some additional required disclosures.

MS. WINKLER: Can you explain to us what this means and why you're drawing our attention to this page?

MR. STRAUSS: Well, aside from the fact that it's just another required disclosure, it's just another measurement --

an actuarial measurement to show the net pension liability. There are unfortunately more details than what you're seeing. You don't have that information yet. They're giving us the ending numbers in draft, but there's more detail. I don't know, Rich, if you want to speak to that at all in terms of what we're looking for.

MR. SENSENBRENNER: Well, you know, basically all these things that Eric has talked about are things that you are already aware of. The big thing was 67, GASB 67. They're just now requiring these things to be disclosed and primarily in the -- well, all in the footnotes in the required supplemental schedules of your financial statements. So -- you know, so obviously like items -- you know, almost everything, your item B, the investment policy. I mean, you know what the investment policy is. You review it every year. And now we just need a summary put into these statements.

Same with target asset allocation. You review that every year and you approve that. Well, that now needs to be part of the financial statements. Net pension liability, well, it's a slightly different calculation but you know that as like your unfunded liability. I believe GASB -- and again I would defer to the actuary to actually get this straight, but it's a slightly different calculation. GASB is requiring to calculate net pension liability versus what we always refer to as the unfunded actuarial liability that we used for decades now.

So, again, slight tweaks. That number shouldn't change. In this case, the presentation just for this exact one that Eric is on right now, they actually want in the footnotes to show that they actually tell you what they want, how to present it. And they want the total liability and they want your assets and then obviously net pension liability of what falls out at the end.

So again, everything in here, there's really nothing brand new that should surprise you or, you know, make you uncomfortable by any means. It's just now the readers of the financial statements, thousands of readers who read these, will now have more information cooked in here.

MS. WINKLER: So isn't the big issue the discount rate at which the unfunded portion of the liability is valued at for the purposes of reflecting on PGW, the planned sponsor's balance sheet?

MR. SENSENBRENNER: Right. And that's presented here on the first page 11 where it just goes -- says your discount rate is 7.95, or at least I think you might have just changed it if I can follow along with that discussion. And then below now right below that on --

MS. WINKLER: I'm sorry. Which page are you on, Rich?

MR. STRAUSS: It's the footnote page 11.

MR. BUTKOVITZ: For 2014?

MR. STRAUSS: Yes.

MR. SENSENBRENNER: So in the old

financial statements the discount rate was also given. But we're giving it again probably in a slightly different spot in the financial statements. But as you can see, it's 7.95. Now the new twist that GASB wants us to do to educate the world is right below that you can see now this is a brand new thing. They want the actuary to calculate a sensitivity. What if you -- and this is good for the discussion and the motion you just did. What if you increased that 1 percent or what if you decreased it 1 percent so the readers will now know, you know, how volatile, let's say, your situation is. And they tell you what your net pension liability will be if you increase it or decrease it.

MS. WINKLER: So the risk -- the concept of the risk free return or the -- where is -- how is that factored in here? You know, the --

MR. STRAUSS: No. Go ahead.

MR. SENSENBRENNER: I don't know if I'm qualified to answer that question. When you say risk free return --

MS. WINKLER: I guess it was my understanding that a portion of the unfunded liability is to be valued using the long term --

MR. SENSENBRENNER: Correct.

MS. WINKLER: -- sort of risk free corporate bond return --

MR. SENSENBRENNER: Correct.

MS. WINKLER: -- more in the 3.8 percent rate?

MR. SENSENBRENNER: You're correct. What GASB did there -- and this was kind of a compromise they did at the GASB board because there was so much pressure for all pension funds to use the risk free rate or the rate of return of private sector companies typically use where in municipal government we typically use the rate since you guys well know how it was determined and it wasn't a much higher rate and that was always a criticism.

So GASB basically, as I understand, you know, kind of split the baby. They said for after -- and again this is a real actuarial question -- and if anyone else can explain it better than I can, please jump in. But what GASB basically said is when your actuary does your analysis, if you are not a well-funded plan -- and again I can't quote to you exactly the dynamics of what makes that -- then a portion of your rate -- of your discount rate has to incorporate a risk free rate, which is obviously a much lower rate, and it obviously extends your liability tremendously. But that is not applicable to all pension funds. I would say probably the majority of pension funds will not have to use that second calculation of calculating your discount rate.

MS. WINKLER: So what's the threshold for funding?

MR. SENSENBRENNER: For determining whether you need to use that? Well, that would be a question for your actuary. And he certainly when he does this -- you know, his valuation report, will inform you if you fall within that territory. I would imagine on the surface just looking at where you're at funding ratio wise, I highly doubt that you guys -- this pension fund comes to even close to having even think about that, using that different approach.

MR. BUTKOVITZ: What are the material disclosures that are going to be required here that weren't required before which will be policy drivers in terms of changes in contributions, changes in unfunded liability, again just things that are going to shock the public into precipitous policy action? Instead of going through this line by line, how about we highlight those issues?

MR. SENSENBRENNER: In 67, see, you have two GASBs. I'm going to get to that question here. You have two GASBs coming up here. You have kind of the boring GASB 67. And that effects you guys, the pension plans. And really all it is as Eric said, is just the disclosure requirement. And you're really not telling the world anything brand new. It's just now GASB wants you to put a lot of that information now in your financial statements. You never had to in the past.

The headliners are going to occur next year for GASB 68. GASB 68 doesn't affect the plan. GASB 68 affects your employers who participate in your plan. So in this case, it would be PGW.

MR. BUTKOVITZ: So is that the OPEB and all of that?

MR. SENSENBRENNER: I can't speak to OPEB. I can only speak to pension. And 68 only speaks to --

MS. WINKLER: There's a new exposure draft out on OPEB, right?

MR. SENSENBRENNER: Right.

MS. WINKLER: Didn't they just put a new exposure draft out?

MR. SENSENBRENNER: Right. And that exposure draft -- just to digress a half a second, everything you read in the press is going to follow very much -- it's going to replicate what they're doing with pensions. I mean, it makes sense. I mean, they're so similar in their application.

So the headliner, the policy driver -- and I don't know if you will say it's real policy driver, but it's 68 where like all -- like the City of Philadelphia will now have to add a significant new liability on its books where we never had to before.

MR. BUTKOVITZ: The liability will be for what?

MR. SENSENBRENNER: For the net pension liability for the pension fund. So if the pension -- the muni pension fund as I think everyone is well aware, you know, it has about a 10 billion dollar liability and has about 5 billion dollars worth as assets. So it has a liability -- you know, it's 50 percent funded or thereabouts. So it has a pension liability of about 5 billion. And so what the City of Philadelphia will have to do is have to -- when 68 is implemented next year will for the first time have to put that in our financial statements as a liability.

And historically -- I mean, I don't, know for decades -- but that always was disclosed in the footnotes, but now -- so next year for the City of Philadelphia you will see liabilities which currently sit at about -- if my memory tells, about 5 billion dollars, you will see that jump to 10 billion dollars in one big --

MR. BUTKOVITZ: And what would be the effect of that?

MR. SENSENBRENNER: Well, again, I mean, I think people who study financial statements know that nothing materially has changed for the City of Philadelphia. So hopefully, you know, people who buy our bonds and things like that it won't be -- hopefully it should not be a surprise because this information was known. It's just our balance sheet will now have a much larger liability and our fund balance will obviously take a hit equivalent to that. The whole impetus of course is the GASB 68 or in 67 -- 67 leads the way to do 68. The whole impetus of course was decades in the making, all the concern about the liabilities of municipal pension funds. And so the demand was basically you have to put those -- you have to show that liability in your balance sheet. You're not doing that. And so the goal was by putting it there, it would raise the public's attention of the problems with public pensions.

So that's kind of a little bit of the purpose of why, you know, GASB, the board of GASB did 67 because we need the information -- 67 is going to provide the information that the City of Philadelphia is going to use to implement 68 next year.

MR. BUTKOVITZ: But bond --

MR. SENSENBRENNER: And --

MR. BUTKOVITZ: Sophisticated readers will be unaffected by it, so it's --

MR. SENSENBRENNER: That's what we hope so, absolutely, yes. That's what the press basically says is that it's well known, well known. And, of course, Nancy could probably speak to that much better that I could. But that's what I read in the press.

MR. STRAUSS: She's got a look. Maybe not.

MR. BUTKOVITZ: So what do you think?

MS. WINKLER: Well, it's an interesting question, right. I mean, all three rating agencies have as part of the Dodd-Frank reforms been required to implement quantitative -- an explicit quantitative methodology that they use for a portion of how they assign ratings. And each of the three rating agencies have developed a methodology for valuing the pension underfunding and factoring it into their ratings. So they would say -- they publicly say they have factored it in.

I think it's a more complicated issue than that, than simply, you know, they said so far. I think the understanding of the differences between most municipalities and municipalities with severely underfunded pensions is going to be seen in a much starker light over time. And so I'm less sanguine that it has no consequence over time because an entity like the City of Philadelphia, big pension fund, very different from the PGW fund, which is about 81 percent I think funded under its 7.95 percent assumption. I believe that because the city is in the, you know, extreme tail of a normal curve distribution where we're, you know, 1.7 standard deviations from the mean and the mean isn't about 75 percent funded, I think that being at the tail -- and the tail is -- over time people will -- are quite concerned about it. I mean, it's a major legacy problem for the city.

MR. BUTKOVITZ: So you think it will rise to the top if it concerns the bond rating agencies?

MS. WINKLER: I think there will be more and more pressure. I think you look at what happened. You look at the -- I think the pressure on the fact that getting the end of the -- I mean, it's very complicated because we can't file for bankruptcy, but what's protected, what's not protected.

So anyway, I could go on for a long time about this topic, but I won't.

MR. STRAUSS: It's a good point, though. I mean, the point is that while most of your sophisticated readers are going to know about this, it's now going to be right out there.

MS. WINKLER: I would just say the number that will show up on the city's books, if they are required to discount at a lower rate, at least a portion, it will be more than 5 billion. That's assuming that -- the number you were referring to is assuming the -- you know, the 7.85 percent return.

MR. JONES: Can I just --

MS. WINKLER: So 14 billion?

MR. SENSENBRENNER: I was told by the actuary that because of the changes they made in the muni pension fund, and I know we're off subject here a little bit, like factoring in PAF and the recent lowering the discount rate to keep the muni pension fund out of that new -- the different calculation.

MS. WINKLER: That's interesting.

MR. SENSENBRENNER: So that probably isn't really for me to say. But I mean that's really --

MS. WINKLER: It certainly means the GASB standards are not --

MR. SENSENBRENNER: That's good news.

MS. WINKLER: -- not capturing -- if it's not affecting an entity at the absolute tail, then it's a lot --

MR. SENSENBRENNER: Right.

MS. WINKER: That's pretty interesting.

MR. RUBIN: Isn't this what they're waiting to use for an argument against defined benefit plans and going through the process and now brining up as these liabilities are so large that there's no way to get out from under them? And there's a gentleman in New York that wrote articles -- there's people all over that --

MR. STRAUSS: It's been known for a

long time. Now it's on the forefront with all the new disclosures and requirements. It's been known.

MR. RUBIN: It's not completely accurate to think that all of the rating agencies and everyone else are just going to say, well, we understand this has always been the case and it just goes away. I think there's going to be a huge push on the people that have been trying to get this for a long time to use this as that catalyst.

MR. STRAUSS: And that will be in writing and that will be out there and booked and, you know, the whole -- you know, it's --

MR. RUBIN: And the argument that it's always been isn't going to be enough to sustain the --

MR. STRAUSS: It never is. It never is, that's correct.

MR. RUBIN: There's more to it than just now it's a disclosure.

MR. STRAUSS: Yup.

MR. JONES: And if I could bring

this conversation back to PGW.

MR. STRAUSS: Please.

MR. JONES: The number that we should be concerned with then is under the 7.95 column here on page 11, the 205 million dollars?

MR. STRAUSS: Correct.

MR. JONES: And that will not affect the PGW pension plan statements? It will more effect the PGW statement?

MS. WINKLER: Well, it will be in the PGW pension plan statement. This footnote will be in the statement.

MR. JONES: The footnote, but as far on the --

MR. STRAUSS: Of PGW, and that's what 68 speaks to.

MR. JONES: Okay.

MR. STRAUSS: The beauty of this, as Rich pointed out, in terms of this particular footnote disclosure does speak to the sensitivity of moving that rate 1 percent one way or the other. It's what you just talked about.

MR. JONES: In this set of financial statements for the pension plan, is there any mention of the sale of PGW?

MR. STRAUSS: No.

MR. JONES: And the -- okay.

MR. STRAUSS: To my knowledge, it's nothing official, nothing in writing, nothing signed, no. I mean, I wouldn't venture a subsequent event footnote unless you're telling me it's happening and we have something signed.

MR. RUBIN: 67 and 68 are applied to private and public or just the public?

MR. SENSENBRENNER: It's just for governmental.

MR. JONES: Municipal.

MR. SENSENBRENNER: So GASB covers governmental and FASB covers --

MR. RUBIN: At the point where the sale would go through would no longer be governmental and, therefore, it wouldn't apply?

MR. STRAUSS: That's a good question.

MR. SENSENBRENNER: Well, the pension fund, and this PGW pension fund depends -- I mean, as I understand it, it will continue to exist in its current state. So I would certainly believe that GASB would still apply given its current -- you know, its current hierarchy organizational structure. So, yeah, I don't think there's going to be any major change there.

MR. STRAUSS: Unless there's something out there in terms of the employees turning over to a private -- but that's --

MR. SENSENBRENNER: Good point, Eric. Right. 67 would probably still apply to us. But, yes, 68 would just depend on, yeah, whatever new creature was created. Yeah, that would -- I guess that could change, you're right.

MR. STRAUSS: But whatever new creature is created, to use that term, obviously assuming -- they would have the same issue. You know, not on the GASB, on the FASB. They would be booking this big liability.

MR. JONES: And I would suggest that this change in the earnings rate effective next fiscal year --

MR. STRAUSS: Well, it wouldn't affect --

MR. JONES: It won't affect this, but I think it probably should be put in as a subsequent event.

MR. STRAUSS: That's fine with me.

MR. RUBIN: There wouldn't be an outstanding liability that they would be booking because the fund would be a hundred percent funded.

MR. STRAUSS: Correct. I think that -- to speak to what Charlie -- this is just a disclosure, not anything more or less subsequent event, subsequent to year end because --

MR. JONES: Because everything is quoted in here is at 7.95.

MR. STRAUSS: Right.

MR. JONES: We've just changed it.

MR. RUBIN: I'm just trying to

understand to put this in writing.

MR. STRAUSS: And I'll date that. So just to kind of keep it going because you have a full agenda here --

MR. JANNETTI: If I can, Mr. Chairman, I'm confused. Did the commission decide to go to 7.85 for the current year 7.65 in fiscal '16?

MR. RUBIN: Fiscal '16.

MR. JANNETTI: So you have to be -- not to speak for anybody, you have to be clear when you're --

MR. STRAUSS: We will.

MR. JANNETTI: Because this affects -- for the Gas Works, this affects more than a balance sheet.

MR. STRAUSS: Sure it does.

MR. JANNETTI: It's going to increase our liabilities, it's going to increase out contribution, okay.

MR. STRAUSS: Correct.

MR. JANNETTI: And it may affect rates.

MR. STRAUSS: Yup.

MR. JANNETTI: Then that's a danger here.

MR. STRAUSS: Yup.

MR. JANNETTI: And coverage.

MR. STRAUSS: Absolutely.

MR. JANNETTI: So there's a lot more than --

MR. STRAUSS: No, we'll make it very clear it's not affecting the current year.

MR. JANNETTI: We don't know until, you know, it will --

MR. STRAUSS: Yeah. And just know obviously when we pull this together and we issue a draft and Charlie takes a look at it, if you're not happy with the language, we're open to that kind of stuff anyway, but it will be clear.

MR. RUBIN: But if the commission looks at the language and decides not --

MR. STRAUSS: I'm sorry. So that's why Charlie is going to look at it. Understood. But if we think there's something out there that's going to cause issues, obviously we don't want to do that.

MR. RUBIN: Okay. I just want the record to be clear that it goes to -- -

MR. STRAUSS: Sure. Very clear, very clear.

MR. JONES: Well, gentlemen, that's 40 minutes. Does the commission have any other comments or concerns?

MR. RUBIN: Is there anything that you haven't covered that you think you should be covering before you guys --

MR. STRAUSS: Just the general statement that anything else that's in here is again that's information that you're very much aware of. Most of it's actually already been disclosed in prior years. It's just how they're showing it in the supplemental information. It's just a little more information, but it's nothing that really new.

MS. WINKLER: Thank you.

MR. STRAUSS: Thank you very much.

MS. WINKLER: And you've got this footnote from Aon?

MR. STRAUSS: That's who we need to

talk to because there's still some holes in terms of disclosures, but we will get there.

MS. WINKLER: So I guess I just -- I'm sorry. I do have one question.

MR. STRAUSS: Sure.

MS. WINKLER: The net position is not the market value of the assets? It's something else because, right, the market value of the assets is --

MR. STRAUSS: Is an actuarial computation, that's correct. The actual market value is --

MS. WINKLER: Five oh two.

MR. STRAUSS: Correct. Correct. How they get to four sixty-two, I think there's a bunch of statisticians somehow figure that out, but I can't honestly tell you.

MS. WINKLER: Okay.

MR. GILBERT: Thank you very much.

MR. JONES: Okay, gentlemen. Thanks.

Next we're going to hear from representatives from Israeli Bonds. They are asking the commission to make some kind of investments in Israeli bonds.

Just a history, the PGW pension plan did have a 1 million dollar investment that I believe matured in May of this year, and they've asked to present this investment opportunity to the commission.

MR. BERMAN: Well, thank you very much for allowing us the opportunity to talk today. I am Larry Berman. I'm the national managing director of corporate and institutional sales for development corporation for Israel. And Glenn is one of my national board members. He is not paid to be here today. He's just a friend of the organization and a strong investor.

We are U.S. broker dealer. Been around since 1951. We may be the only broker dealer in the country that has one client, and our one client is the Administrative Finance for the Government of Israel. And we started out as a kind of a small retail organization in 1951, three years after the founding of the state of

Israel. The first prime minister of Israel, David Ben-Gurion, had a concept that his fledgling state needed some infrastructure bonds to build roads, highways. In Israel's early days they were not going to be able to go to Wall Street. There was nobody to open and float these bonds. So they decided they were going to try to sell about a hundred and fifty million dollars, which back in 1951 was a lot of money, to a big retail community of the Jewish diaspora here in the United States.

Well, fast forward 63 years, we just passed the 37 billion dollar mark of sales of Israel bonds. The bond proceeds that we sell are traditionally going all for infrastructure. So all the roads, the highways, the airports, the power plants have all built the state of Israel with the proceeds of our bonds. Out of the 37 billion, only 6.5 billion remain outstanding.

To give you some idea, Israel's GDP these days spent 260 billion dollars.

Their debt is about 176 billion. And we make up a small portion of that 6.5 billion.

So in one of the interesting factors in Israel when looking at the credit is that the GDP, the debt ratio in the last 10 years has gone from 97 percent to 67 percent, which is quite an accomplishment in a 10-year span. And part of that is I think that people are being very comfortable and the credit agencies are very comfortable with the fact that Israel now is an admitted member of the OECD and has been investment-grade quality paper for 27 years.

And we came from a retail background, and 27 years ago when we became investment grade, we started selling in earnest to institutional customers. And out of the 37 billion that I mentioned, we've sold 13 and a half billion to institutional customers, primarily banks, insurance companies, state municipal pension and treasury funds. We sold 6 billion plus to banks. We've sold almost 3 billion dollars to state, municipal, pension and treasury funds. And we've sold a billion dollars to insurance companies. And we've also sold close to a billion dollars just to other union funds, ERISA funds. So it's been a good marketplace.

I think a lot of the union funds, a lot of the municipal funds had seen our paper as very nice and higher yielding alternative to U.S. treasuries. When you look at our paper -- and I'll go through in a minute -- you will see that we use the U.S. Treasury as our benchmark for our two, three, five and ten years products. We offer -- we don't sell long-term bonds. We offer two, three, five, ten years floaters and fixed. And the benchmarks we use on the fixed rate bonds are the U.S. treasuries, plus what's going on in the limited Israeli market, but pretty much we use U.S. Treasury as our primary benchmark and then they add obviously a spread on top of that. And then the floating rate bond benchmark is a six-month LIBOR rate. And of course they add a spread on top of that.

So it's been a real success story. And we've sold -- just to give you some idea of the -- you guys as you know have bought a bond in the past. Had a million dollar bond that matured in June of this year. And the City of Philadelphia's Pension Board Fund has been a good buyer of our bonds. And if you look at your materials, you will see this section here talks about all the state treasury funds and all the pension funds that have bought our bonds in the last few years. And cities like the city of New Haven, the city of Providence, the city of Miami Beach. Houston for the first time bought our bonds just last year. And the city of New York has a big portfolio, over 50 million dollars of this paper.

We've also sold places that you wouldn't necessarily normally expect Jewish bonds to be sold. We sold to South Carolina. We sold -- the state of Indiana has a 50 million dollar portfolio. The state of Oklahoma has a 50 million dollar portfolio. The state of Louisiana has a 20 million dollar portfolio. It goes on and on.

So places that -- first and foremost, I know that you guys have a fiduciary responsibility. And if you look at the credit reports that are included in your packets, you will see that both Moody's, Standard & Poor's and Fitch, when U.S. treasuries were that rate by S&P a couple years ago, Israel was upgraded. And really the only concern that they'll even mention -- and the reason why I think from a -- why they're not more highly rated is the political turmoil in the Middle East, which is obviously a concern. But given Israel's track record of what -- and you can talk about how safe these bonds are, they have never defaulted. And I think in this day and age, you know, with what's going on in Europe and some other things along the way, it's nice to have a track record of a perfect repayment. And I think that the ratings agencies look at Israel's credit rating. They don't float a lot of paper because they're very careful on how they manage it.

I talked a little bit about the history with the union. It's just been a long history with the unions in the state of Israel. Israel was founded as a labor state. The history duty has been a big part of Israel's history. And there's always been a strong support from union funds around the country. And I'll just throw that out as a thing to consider.

Let me walk you through quickly the offerings we have today and tell you about something that we may also have later on in the year. I'll stop if there's any questions now?

MR. BUTKOVITZ: Well, you said that this was an attractive alternative to U.S. treasuries. So if you could address that point.

MR. BERMAN: You know, I think there's a lot of people -- there's a lot of funds that, you know, obviously looking for -- I understand the target you guys have to hit on the bond side and the equity side. But there's also obviously a safe part of the portfolio which includes U.S. treasuries and some other U.S. agency paper that's got to be there on the safe side. And I think a lot of people that buy our paper and take a look at it and say, okay, we like the track record, we like the -- we like the support that the United States offers to the state of Israel on some of the other paper that's floated out there. And because we are priced off of the U.S. treasuries at its spread -- you know, at a significant spread above what they are, we price our bonds -- I should have said this earlier -- the 1st and the 15th of every month.

So on the 1st and the 15th of every month the Ministry of Finance takes a look at the marketplaces and they offer -- they put prices on and those prices are good for two weeks.

So if you look at your package, you'll see we have bonds are issued from --

good from November 1st to November 14th. And you will see the first bonds are the highest yielding bonds with a minimum of $25,000, and those are the Jubilee bonds. And you follow the U.S. treasuries you will see the 93 basis points for the two year, a hundred and fifty, a two-sixty-four on a 5 year and three-sixty-seven on a 10 year is a nice premium over U.S. treasuries.

If you look at the bottom of the sheet you will see your floating rate paper. And you will see the floating rate bonds also as I mentioned earlier and there's a spread there on the two year plus 25 bps, on the three years plus 40 on the five year plus 80. That final bond is only offered to individuals borrowing money.

So these are our offerings for the 15th -- until the 15th. On the 15th, Israel will take a look at the marketplace, see where the U.S. treasuries are, see what's happening in the marketplace and reset for the following two weeks for the purchase date then on December 1st.

So every two weeks there's an opportunity in some ways to be honest with you to beat the markets. Because these prices are good for two weeks, I often work with our investors to reach out to them and say, listen, this is a good week, the markets have changed considerably since we bought these bonds, you know, and a couple weeks ago when the markets went crazy it would have been a good time to take a look at our paper because we're priced at a certain day and then you have a two week -- now, listen, it could be good news, it could be bad news depending on when the markets move. But if you decide that this is an investment that you want to take a look at seriously, I'll work with whoever is pulling the trigger on the investment to make sure that you guys get the very best coupon possible. And if it's not one week, we'll do it another week when we think it's in good shape.

I'll also say to you, because I think it's close enough to do that, that these spreads are probably the lowest spreads we've seen during the course of the year. And that's because Israel has made all its goals already. You know, they have -- they manage their debt carefully. They've asked us to sell a billion dollars this year. We're at a billion one already. So they kept the spreads considerably. If you looked at our prices the last few weeks, you will see that they've shown good spreads, and that's smart money management.

With that being said, on January 1st is when I really would like to work with you guys in terms of buying bonds because two things will happen. One, we should see better spreads in general just because we're starting a new fiscal year and that will mean that they're hungrier for paper. And then, two, will offer some institutional paper, which has now been for selling now for several months. A lot of the state funds that have bought our bonds, and it's been more than 300 hundred million, by the way, of state, municipal, pension and treasury bonds, 300 is the widest year we've ever had, this year bought our paper. And a lot of it was buying when we offered the institutional paper. Come January 1, 2015 we will have institutional paper again. And the institutional paper traditionally has 25 basis points spread better than our regularly offered paper. It's only offered in three and five years. So, imagine that.

So if you're interested in short-term product, two-year paper, that is not offered on the institutional side, but it is offered on three and five and the last bond that this supplied here, the Jubilee bond. So it would be -- it would be -- you know, the rate would be two-sixty-four, plus you add 25 basis points on top of that, and I think also with some additional spread, come January 1 I think is a good time this committee should take a close look at buying this paper. And I wanted to be candid with you about that because we want you to -- we want you to be -- we want you to get the best possible coupon you can.

MR. DiFUSCO: I'm sorry. I had a question. The controller had asked about, you know, comparisons to U.S. treasuries. My understanding is that there's no secondary market for these securities? They're also -- you have no ability or extremely limited ability if you want to get out early?

MR. BERMAN: That's correct.

MR. DiFUSCO: So that would be a key difference, am I correct, between a treasury and, you know, or other --

MR. BERMAN: Absolutely correct. That is a whole maturity product and very good question and I should have said it earlier. But it is -- so there is -- I mean, if there's a financial hardship there is a way to get out of it, but it's a long process and you don't want to go through that.

So the bonds are priced usually to have that built in spread to give you the premium coupon for lack of liquidity. And so you are getting some better spread and you are getting better coupons, but you do have to hold it. If you buy a two year, you hold it for two years. If you buy it three years, three years and, you know, bonds just matured this June, you held it for five years.

Now, on the plus side, these bonds are always valued apart because of that. And we know what's going on in the bond market for many years. Everybody has been looking for, you know, bonds to -- prices to come down. It hasn't happened really, but it's been there and it's been out there.

So from a valuation standpoint, these bonds are always held apart, which means -- which is obviously good from when you're valuating your portfolio.

MR. JONES: Excuse me, Larry. Do the rates fluctuate during the holding period?

MR. BERMAN: No. If you buy fixed rates bonds they're held to term. If you buy a floater, they're just semiannually.

MR. JONES: Because the bonds I'm

familiar with, when they price at par all the time, they're usually variable rate bonds.

MR. BERMAN: Both our floaters and our fixed rates are priced at par. But the variables -- the variables are priced every six months.

MR. JONES: Okay.

MR. BUTKOVITZ: So what was the winning argument in South Carolina or Oklahoma?

MR. BERMAN: What was the winning argument? Coupon and credit. People are very comfortable with the government's ability to repay this money. And they like the fact that the coupons have been more significant that they're getting on the treasuries and agency paper. I mean, is there a --

MR. BUTKOVITZ: By what kind of factor? How much more significant?

MR. BERMAN: It varies throughout the course of the year. Right now it's -- as I said to you, it's not as much as it's been, but it can be as much as twice, three times the U.S. Treasury coupon. When we get the institutional paper in January, you should see some prices, especially on the two-year paper or the three-year paper that are double, maybe triple U.S.T. coupons. So that's why they do it. No one really -- can I be candid with you? No one really loves the fact that they're hold to maturity product, but a lot of people have hold to maturity products in their portfolio. Most private placement portfolios are all hold to maturity. It's a matter of, you know, you don't usually see it on the bond side. But then again you don't see a relatively safe bond paying two to three times U.S. Treasury. Certainly A plus, A minus rated bonds with that kind of premium over the treasuries.

MR. BUTKOVITZ: Did somebody go on the record and say that was their reason?

MR. BERMAN: Yeah. I mean, if you look at -- in fact, the treasurer of Louisiana, John Kennedy, just wrote an article. I can get you some stuff. There's a bunch of treasurers out there. Josh Mandel, the treasurer of Ohio, bought 47 million of this paper this year and he bought 42 million last year. And I have quotes from various state treasurers and city officials around the country why they bought this paper and why they -- you know, again, there's also the support of Israel, the United States' best friend in the Middle East. And I think there are certain reasons -- secondary reasons of people like that about our paper that you our supporting, you know, America's best ally in the Middle East. But first and foremost, everybody has numbers to worry about. And so, you know, I think that that's why.

And, again, when I started selling these bonds 17 years ago, we were selling to maybe -- maybe we had 15 or 16 state funds buying this. And it's just exploded in the last 12 years. In fact, I've had treasurers calling to change legislation to allow them to buy foreign paper just because they wanted to buy our paper. They liked the credit and they liked the group enough and they wanted to buy this paper. There is a lot of state treasurers and municipalities -- I mean, pension funds could always usually buy foreign paper, but all the treasury funds could -- and a lot of the treasurers have liked it enough that they've actually helped facilitate the change in legislation to allow these bonds to be bought.

MR. BUTKOVITZ: Do you have like an information sheet on that?

MR. BERMAN: Sure. I'll be happy to do that. But if you want some direct quotes from some treasurers and financial offices that have bought the bonds, I'll be happy to provide that for you.

MR. JONES: On the institutional paper, what kind of minimums are there?

MR. BERMAN: 500,000.

MS. WINKLER: Frank, how does this fit into our investment policy and our investment strategy? We have several investment managers who are managing bond portions of our portfolio. Some of them are given a mandate. Does this fall into any of the mandates for our current portfolio managers?

MR. DOMIESEN: The fixed plus managers in the intermediate space will show they fall in the Jubilee two, three and five, even up to ten years note.

MS. WINKLER: So they're eligible to be bought by our managers?

MR. DOMIESEN: Yeah, they're eligible to buy non-U.S. bonds, sovereign debt. I think this is up for review, but the credit quality on a non-U.S. the way it's written now is double A or higher. So this would not meet that, but --

MS. WINKLER: Don't they have a 10 percent component of the portfolio that they can go to a lower credit? Do I have that wrong?

MR. DOMIESEN: Just the U.S.

MS. WINKLER: Oh, just the U.S.? So not for foreign?

MR. DOMIESEN: Well, they can invest the --

MR. DiFUSCO: Page 8.

MR. DOMIESEN: They can invest 10 percent of the plus and any combination of domestic high-yield and dollar-denominated emerging market -- domestic high-yield must be rated single B by at least two of the agencies and --

MS. WINKLER: So these are dollar-denominated foreign --

MR. DOMIESEN: Yeah. Here this says non-U.S. securities must be rated double A 3 or better or double A minus.

MS. WINKLER: So in the plus piece there's no exception for this --

MR. DOMIESEN: The plus piece has the double A minimum for non-U.S. securities the way it reads currently.

MR. BUTKOVITZ: And what is the rating for these?

MR. BERMAN: A plus.

MR. DOMIESEN: Yes, A plus.

MR. BUTKOVITZ: So we are off by a

grade?

MR. DOMIESEN: The way the policy is, yes. Let me look at the maturity pricing versus the intermediate, two managers at intermediate plus, Lazard and Janus. The yields -- if you look at the current yield, the yields that you're offering here is consistent with the yield to worse of the current portfolios from the yield perspective. It wouldn't necessarily pull that out of the overall yield of the current portfolios. It would be in line with that.

And also the spreads versus -- you mentioned spreads, spreads versus treasuries. When we looked at it, we did it, there's been a lot of movement in the market. We looked at mid November. I'm sorry. Mid October. And the spreads were favorable versus other single A credit sovereigns.

So from a peer group comparison, the spreads were fairly priced from other single A credit sovereigns.

MS. WINKLER: So is it common for a single A credit sovereigns not to be liquid?

MR. DOMIESEN: Well, this is different. This is (?).

MS. WINKLER: I understand that.

MR. DOMIESEN: But there can be. Yeah, there's liquidity. There can be liquidity. Your existing managers, I think that exposure you have to foreign sovereign may be about two percent. One of the managers was -- I forget which one it is. So from a consistency perspective, if in the three to five range, the pricing is fair over treasuries versus other single As, three and five years most notably --

MS. WINKLER: Aren't we trying to get like a four percent return on four to five --

MR. DOMIESEN: Yeah, but I'm looking at the yield to maturity right now. This is (?). I was looking at the yields to maturity. So that's about -- depending on which fund you look at -- a 2.3 percent for Lazard up to a 2.8 percent for Janus overall. And these are five years 2.61. I'm sorry. 2.64.

MR. BUTKOVITZ: That's the current rate. The current rate would probably be higher in January?

MR. DOMIESEN: Right.

MR. BUTKOVITZ: So we already have exposure to two percent foreign sovereign debt in this --

MS. WINKLER: In the double A? Is it double A?

MR. DOMIESEN: That's correct.

MR. BUTKOVITZ: Whose sovereign debt?

MR. DOMIESEN: Pardon me?

MR. BUTKOVITZ: What do we own?

MR. JONES: I don't know that we own --

MR. DOMIESEN: I don't have that.

MR. BUTKOVITZ: He just said we have two percent --

MR. DOMIESEN: I don't that have. I don't know, but the specific issues are two percent. That's of Janus.

MR. BERMAN: I would also mention --

MR. DiFUSCO: Which managers are on its way out?

MR. DOMIESEN: Right.

MR. BERMAN: We work with a lot of the big money managers across the country, the Blackstones, the Western Asset Management, the Pimco bought three different state funds in the past. And so, you know, from the state of Massachusetts uses, you know, Pimco. Connecticut uses Black Rock, and we've worked with them in the past, too, to facilitate these things. I may know money managers that are using it and they already own some of our paper for other clients of theirs.

MR. BUTKOVITZ: The problem I have is a couple fold. Number one, the United States government defaulted on its debt and Israel never did, right? So secondly, I was in a discussion with the pension board where the criticism was that the interest rates aren't high enough that we should buy Lebanese bonds because we get stratospheric interest rates because there is no Lebanon. And to my way of thinking, that means there's a good chance that you're not going to be repaid.

So is there a special -- and Israel just doesn't fit into any of the spaces of the way world has been split up in terms of categories that are used for investment. So you're talking about something that is of 100 percent secured investment that is paying interest rates that are superior to U.S. Treasury rates and then you're saying there's nothing that you can compare it to. Then I have a specific question that we have exposure to two percent to foreign sovereign debt and you don't know anything about that. You can't tell us anything about it. So --

MR. DOMIESEN: I don't have with me in front of me the specific holdings of the two percent Janus. I do know that -- I agree with you that the spreads versus treasuries are fairly valued. Single A has never defaulted from Israel or any sovereign single A. Those are the two elements that

I, you know, looked at. And that you have a latitude for plus managers to hold non-U.S. bonds. I don't have the specifics. I can get that for you.

MR. BUTKOVITZ: So you're saying they would have to sell their bonds to a manager?

MR. DOMIESEN: Pardon me?

MR. BUTKOVITZ: They would have to sell their bonds to a manager rather than to this fund, or do I misunderstand what you just said?

MR. DOMIESEN: No, I think these are direct investments. It's not that they have to be sold to a specific manager.

MS. WINKLER: They could be. That's how we currently manage the bond portfolio, right? Do we have our own bond portfolio we're managing ourselves?

MR. DiFUSCO: No. So we could amend the guidelines to allow single A paper, sovereign paper as a specific band with which would then open it up to managers, and then the managers would be required to make their own best judgment as to whether or not they want to include Israeli bonds, or the commission obviously has the latitude to do what it did five years ago or five and a half years ago, which is to make an exception. And I wasn't here at the time, so I don't know how that exception was made, you know, vis-à-vis the guidelines, but to make an exception to have it directed, assuming that the commission was so inclined to do either one of those things. That would be the two options.

MS. WINKLER: What do you recommend?

MR. DiFUSCO: I am not -- my concern -- my concerns revolve generally around the liquidity. And I think that is why among other reasons -- and I do know that the marketing materials here, you know, list the Pension Board as a client. I believe the board no longer is a holder. If I'm wrong --

MR. BERMAN: That's correct.

MR. DiFUSCO: So I think that, you know, that liquidity -- I also think, and I know there are other security prices weigh in terms of buy and hold, but, again, if you're talking about a three- or five-year hold, the interest rates are attractive now. I agree with Frank and I agree with the gentleman here, the interest rates jump and you have a buy and hold you can't get out I mean, and that to me is a concern. I think everything else they said the interest rates are fair now I agree with Frank. But the liquidity is a concern.

If I were to do anything, it would be to suggest or to possibly consider amending the guidelines which would allow managers if they wanted to hold these bonds to do so. But I would not be recommending at this time that we would --

MR. BERMAN: What about the floaters? I mean, that's what a lot of the pension funds do buy because of the exact concern you have, and that is the floating rate paper is --

MS. WINKLER: What kind of odd? Aren't we in the -- we, unlike a lot of other pension funds, we don't pay the current -- we don't pay the current pension? We actually -- PGW makes the payments and then they come to us for reimbursement like once or twice a year, right? So the liquidity that would normally be maintained in most pension funds for making the current payments, is actually liquidity was maintained at PGW. It's sort of different in that regard.

MR. BERMAN: You know, there's so many odd setups around the country, you'd be surprised to see how many different -- you know, how many different setups that are there. And our bonds have found their way in some pretty odd portion portfolios sometimes because this institutional fund they offer is actually offered as a private placement. That product goes into a private placement portfolio, okay, which, you know, that point there's no problem with liquidity because it was -- 90 percent of those portfolios was liquid anyway. And so if you went to that route you could do that. You know, if we found ourselves at the treasury portfolios and sovereign portfolios and sovereign portfolios and regular fixed income portfolios and private placement portfolios.

So I'm not going to say it's not a little bit out of the box investment, but it's becoming less and less so because I think people have recognized that, yeah, liquidity -- and, by the way, I understand that liquidity is the number one issue of why people don't buy these bonds. But the reason why the people make the decision to buy the bonds is because we work with them at the right weeks to get them an absolutely great coupon and it's been -- you know, it's been a safer product on the market as there is. They've never defaulted. Never gotten close to defaulting. And between a combination of safety and coupons, people are saying, okay, you know, we don't see a lot of quality out there. I mean, the state treasurer of Oklahoma came to us and said to me I look at these bonds all day long. I don't know where to -- I don't see any coupon with -- I'm scared of most of the stuff out there. Your stuff I'm not scared of. We believe it's a safe product and the coupons are in line. And so, yeah, I don't mind holding it for two years or three years. I think from that standpoint -- and if they do, they buy the floaters, so if the markets go up, you know, they -- you know, and unfortunately the people that want the floaters probably, you know, didn't need them the last few years because they held strong forever and a day. You know, five years ago people were saying floaters are going to go up but they haven't.

With that being said, if it's a concern, if you buy a floating rate product, then you're not really -- then you really don't have to worry about liquidity as much because you're going to be -- if the markets go up, so does your interest.

MR. BUTKOVITZ: The issue I have is I don't like special exceptions. I like to adhere to policies. I've been here eight years on the pension board. I believe in policies. These bonds are a concern. It's like a children's -- it's like a musical chairs game. I don't know if you were there at the meeting that we had the argument over the phone about Lebanese state bonds where there is no Lebanon where they showed us maps of Brazil and I forget what other countries. The whole argument was that the space that we wanted to be in, although it was a fixed rate product, was we wanted to invest in people that probably would never be able to repay us.

So the argument here is Israel -- these guys never missed a payment. They're paying rates higher than U.S. treasuries and we've got some kind of hopscotch jump over this line rule that locks them out. And I'm not a proponent of exceptions to rules. But I like rules to constitute due process and fairness and reality. And this is beginning to strike me as a very unfair process, unfair template because their problem is they're too solvent. They're too methodical in making repayments; therefore, they don't pay exorbitant rates. And they've got answers to most of the other problems and they've satisfied states all over the country. And we're being put into a position of where you have to violate your own policy to do it.

MR. DiFUSCO: Well, no, if that was how it came across I apologize. I believe what I said was we would need to amend the existing guidelines to allow -- I said I was not here five years ago, so I am not familiar with how an exception is made. That's what I said. All I suggested was if the idea was to allow managers that we hire to invest in this particular security, we would need to amend the investment guidelines. That was my statement. If there was a confusion about that I apologize. I was not suggesting that we violate the guidelines. I was suggesting that in order to have a direct mandate, if the commission chose to go that route, it is my opinion that the guidelines needs to be amended. Or alternatively, if managers are going to be allowed in this case, again to amend the guidelines. That was the point I was trying to make.

MR. BUTKOVITZ: What does it take to be double A rated? What foreign security is double A rated?

MR. BERMAN: I mean, some of the European countries are double A rated.

MS. WINKLER: France.

MR. BERMAN: Germany. But a lot of them are on the -- a lot of them are on the borderline right now. You know, if you look at the sovereign debt and what's going on in Spain, Italy and including France, there's a lot of problems in Europe. We read about it every single day and, you know, everybody is looking for coupons. And, again, that's why I think this is a good buy because it's got both the credit side to it and the coupon side to it that a lot of paper doesn't have. And clearly you guys would not be alone. But, by the way, there has been -- as I said, a lot of -- because of -- you know, guidelines have been pretty restricted in the past. A lot of states, a lot of cities have changed guidelines or made exceptions and I --

MR. BUTKOVITZ: So if the guidelines were amended along the lines that Chris DiFusco recommends, how broad would that mandate or that opening be in terms of who would now be eligible?

MR. DOMIESEN: That would be the discretion of the active plus managers that --

MR. BUTKOVITZ: But I mean --

MR. SEGAL: What other countries?

MR. BUTKOVITZ: Yes. What other countries would go through that hole?

MR. BERMAN: There's probably about 15, 20 A1 rated countries out there.

MS. WINKLER: I think we have to understand this a lot better that --

MR. BERMAN: But I think -- but, you know, just by the way, there's a lot of legislations have been altered and I can

show you seven or eight different copies at the state level at least that allow just for the state of Israel (?).
For instance, when Indiana changed their legislation, they changed it for three things. They changed it for the state of Israel bond, the World Bank and the African Development Bank. Those three were the exceptions to their guidelines. And so there's lots of -- I had lots of templates out there for you if you want to take a look on how different funds have changed their guidelines to accommodate this product.

So, again, it's there and it's out there and it's not very difficult to get in your hands if you'd like to take a look at it. Some of it is very broad and some of it, by the way, is based on, you know, A1 rated paper but from countries that haven't defaulted in their history or haven't defaulted in 25 years, and so they put all these other stipulations on top of it to make it really very difficult. Not every A1 country then is now eligible because most of them have defaulted or most of them haven't been investment grade for that long or whatever the guidelines are. You can make it very restrictive so that from a safety standpoint, for instance, if you wanted to do something on A1 countries that have only -- that have never defaulted or have only defaulted -- haven't defaulted in the last 25 years you can do that, and that way you're kind of, you know, raising the criteria in this exception.

MR. BUTKOVITZ: So it looks like we need some kind of report, right? So then the motion would be some kind of impact statement on sovereign states with A1 rated securities that have not defaulted within the last 25 years, do you think?

MS. WINKLER: What is the question, for a staff report?

MR. BUTKOVITZ: Yes.

MS. WINKLER: Looking at modifying the --

MR. BUTKOVITZ: Considering the impact of --

MS. WINKLER: With some limitation I would presume there would be a --

MR. DiFUSCO: So it would be a staff report and possible modifications to the IPS?

MR. GILBERT: Are the 30 minutes up?

MR. JONES: Yes, the 30 minutes are up.

MR. GILBERT: We can take care of this other stuff.

MR. SEGAL: I just wanted to thank the board. I don't want to repeat anything that Larry said. I want to thank the board for letting us come today. Thank them for their past purchases, hopefully their future purchases, and just emphasize the safety of Israel bonds. We've been selling them for over 50 years, never had a default, never had a lien. The state of Pennsylvania has over 30 billion dollars in the pension fund. That's -- I just wanted to emphasize the safety and thank you again.

MR. BERMAN: Thank you for your time. I really appreciate it.

MR. GILBERT: Is there a question?

MS. WINKLER: Well, I think we haven't made any decision. I think we need more information.

MR. JONES: I think we also have to see where the rates come in after January 1st --

MS. WINKLER: I think that's --

MR. JONES: -- to see what the institutional rates.

MS. WINKLER: I think to me from my perspective we have an investment policy. We have -- we're fiduciaries of the fund and we hired these managers to manage the money within certain guidelines. And I think the question would be to learn or to understand how an investment manager would consider this product and how we, you know, protect our, you know, corpus and generate the return we want where we need to generate.

MR. DiFUSCO: So then in light of those comments and kind of what you guys have asked for, I would suggest that we have a staff report on those issues along with what amended guidelines would look like to allow this in the fund either directly or through a manager. And I would also suggest that in light of the fact that this would impact as Frank said the intermediate and core plus managers that -- because it may well change some of what was going to be proposed today in terms of the next agenda item that we also table that agenda item.

MS. WINKLER: What's the next agenda item?

MR. DiFUSCO: Well, the next agenda item is proposed changes to the IPS that have to do with the intermediate and core plus managers. I'm suggesting that if we're going to change or potentially change them again, then I would prefer to make those changes all at once as --

MR. BUTKOVITZ: Why?

MR. DiFUSCO: Because I would not necessarily want to line up the new managers, particularly Logan Circle, who has not yet taken custody of the assets and then tell them after they've bought in, you know, bought in to all their new securities tell them again in three months, by the way, now you're allowed to do all these other things that you weren't allowed to do back in November on the 12th. I would prefer to do that simultaneously. That's just my preference. Obviously you guys don't have to do that if you don't want. It's just a preference.

MR. GILBERT: Do you want to defer this discussion to a presentation of the revision of the investment policy?

MS. WINKLER: I'm sorry. What are you proposing?

MR. GILBERT: To defer this discussion on the purchasing of Israel bonds until Chris had an opportunity to re-revise the investment policy.

MS. WINKLER: Well, I don't think we're asking for -- I don't think we've agreed to revise the investment policy.

MR. DiFUSCO: No, we haven't. But I was -- I'm saying as part of a staff report we would also -- or I would also have draft or guidelines that would show what they need to look like to allow such a purchase and the managers some time to do it. I'm not saying I'm recommending it. I'm saying I think it's prudent to see what the guidelines would look like if the commission as a whole --

MS. WINKLER: Well, I mean, we wouldn't want to adopt a change in the investment policies without a staff recommendation to modify the investment policy.

MR. DiFUSCO: I understand.

MS. WINKLER: I wouldn't, unless there were a clear staff recommendation to modify the investment policy.

MR. DiFUSCO: I understand.

MS. WINKLER: So I won't be voting for it.

MR. DiFUSCO: I understand.

MS. WINKLER: Without that, and it would have to be based on, you know, recommendations from our advisors and input from our managers.

MR. DiFUSCO: And we would also sit down with intermediate and core plus managers and get their feedback as well.

MR. GILBERT: Two questions. Do we revise the investment policy with the Israel bonds in mind? Or do we simply look at the revision of the investment policy now and do the Israel bond question separately?

MR. JONES: I don't see why we can't do the investment policy now and consider the information or potential change -- you know, I don't want to hold up the whole works because this issue has arisen.

MR. GILBERT: Okay. So we're back on the agenda and Chris will present the -- how do we dispose of the Israel bonds, we bring that back in February?

MS. WINKLER: Okay.

MR. GILBERT: Okay.

MR. BUTKOVITZ: You mean you're going to bring up the question of the motion of Israel bonds simultaneously with the staff report?

MS. WINKLER: Yeah. I mean, we may

not be in a position to make --

MR. GILBERT: It's a separate question, I think.

MS. WINKLER: I mean, you're the Chair. So --

MR. DiFUSCO: Well done.

MR. GILBERT: So we'll do the revision of the investment policy and we'll talk about Israel bonds in February, right?

MS. WINKLER: Yes.

MR. DiFUSCO: So the changes are the proposed changes to the investment guideline as they stand now are on pages 8 and 9 and affect parts 2 (d) and 2 (e) of the fixed income securities and specifically the core plus and intermediate managers.

Speaking to our managers, and particularly Logan Circle, who as I said they're finishing their contracting process with the city and haven't yet taken custody of the assets. We've also spoken to Frank about this a little bit. We would propose changing 2 (d) and 2 (e) so that just within the 10 percent band with the U.S.

dollar-denominated and U.S. debt securities, just in that 10 percent band with the credit rating be allowed to be a triple B minus. And I believe that's -- Frank can correct me if I'm wrong, but I think that's largely consistent with the index.

MR. DOMIESEN: Yes.

MR. DiFUSCO: And so I think that that change makes sense. And then (e) is just kind of a, you know, piggyback on to that to make it consistent so that the average market-weighted quality of the manager's allocation below investment grade U.S. dollar-denominated U.S. debt securities, which is the language there, is made consistent. I don't know if Frank wanted to add anything else to that.

MS. WINKLER: I have a question. Is there a duration limitation on the weak or credit quality bonds?

MR. DiFUSCO: I do not -- not for -- not for a specific securities, but I think if you look at large letter D, Nancy, it talks about the overall effective duration being held within an 80 --

MS. WINKLER: That really wasn't my question.

MR. DiFUSCO: Okay. No. I just pointed that out.

MR. DOMIESEN: Did you ask about the overall credit quality?

MR. DiFUSCO: No, she asked if there was a duration -- correct me if I'm wrong, duration limit on specific securities?

MS. WINKLER: I asked if there was a duration limitation on the lower credit quality investments?

MR. DiFUSCO: And there is not.

MS. WINKLER: Remind me. We would be going from what rating to what rating being permitted in this 10 percent allocation?

MR. DiFUSCO: You're going from -- before if you see where it's crossed out third line from the bottom in the 10 percent band with it's rated B or better and now you would be triple B minus.

MS. WINKLER: So am I reading this

correctly that the change is that if we hold it in the portfolio and it's downgraded, we're no longer obligated to sell it; whereas, they previously would have been obligated to sell if the security was downgraded? It says at the time of purchase.

MR. DiFUSCO: I'm sorry?

MR. JONES: At the top of page 9 it says domestic high-yield securities which met credit quality standards at the time of purchase and are subsequently downgraded in a manner that they no longer qualify for investment must be disposed of in a prudent manner.

MS. WINKLER: Okay.

MR. DiFUSCO: So unless they ask for an exception, a manager comes to us for an exception.

MR. DOMIESEN: I think that's consistent with what it was before.

MR. JONES: Well, that wording did not change.

MR. DiFUSCO: Right.

MS. WINKLER: I'm sorry. I don't know why I'm having trouble understanding what change.

MR. JONES: I think what's changed, Nancy, is that they had a stop at triple B. Now they're allowed to go down to B minus, or they're not allowed to buy -- they're allowed to buy B and B plus now.

MS. WINKLER: It says -- what was lined out it says domestic high-yield securities must be rated B, single B or better, that's what's removed, the language that's removed.

MR. JONES: And now they're allowed to go down --

MS. WINKLER: So it says it must be rated single B or better, and this says we may buy where the credit rating is B minus or below the prohibited. I'm asking what's changed? It doesn't look like it's changed. I mean, why are you making this change?

MR. DiFUSCO: Because it's more consistent with the index for core plus and intermediate managers in this --

MS. WINKLER: In what way specifically?

MR. DiFUSCO: That you may now buy U.S. dollar-denominated debt securities and the domestic debt where it's less than -- the credit rating is less than triple B minus, then you're not allowed to -- at the time of purchase single B minus as you said was prohibited and this is more consistent with if you had a passive manager how they -- or how the passive accounts would work. It's making the language more consistent with the index in this particular space and it still continues to limit that exposure to 10 percent of the overall location.

MS. WINKLER: So we're removing the words emerging market and we're inserting non-U.S. debt securities?

MR. DiFUSCO: Correct.

MS. WINKLER: So the credit rating criterion has not changed?

MR. DiFUSCO: Well, it's been -- it's been specified. I don't believe that the triple B minus was specified anywhere previously. So where it says less than BBB minus, that's being inserted.

MS. WINKLER: I understand that. That's just the definition of what investment grade means.

MR. DiFUSCO: Correct. Correct.

MS. WINKLER: So that's not -- I mean, perhaps I'm misreading this, but I'm just now reading this for the first time and I apologize. But I'm reading it to say that we previously were permitted to invest up to 10 percent of the allocation in bonds -- high-yield fixed income bonds and U.S. dollar-denominated emerging market debt period, I guess, which had to be rated B or better. That's what we used to be able to do. And now it's in any combination of domestic bonds and U.S. dollar-denominated non-U.S. debt securities again rated B or better because it says securities where the rating is B minus or below are prohibited. So B or better is permitted. I'm not sure that we're changing -- I'm not reading that we're changing the credit rating. Frank, am I misreading that?

MR. DOMIESEN: Not for the investment grade portion.

MS. WINKLER: No, no, I'm sorry. I'm asking about the non-investment grade portion. It looked to me like we were permitted -- if we lined out domestic high-yield securities must be rated B or better, is it now that we can buy foreign -- no, it previously said emerging markets. So --

MR. DiFUSCO: Nancy, I read this to say notwithstanding the credit quality requirements in the paragraphs above.

MS. WINKLER: Right.

MR. DiFUSCO: Manager may invest the maximum up to 10 percent of its allocation, valued at market in any combination of domestic and U.S. dollar-denominated U.S. debt securities where the credit rating is below investment grade.

MS. WINKLER: But it must be B or better because we are prohibited to buy B minus or below. And the previous criteria was that we had to buy B or better. So to me, there is -- this is a wording change.

MR. JONES: Well, it looks like there is --

MS. WINKLER: If there is a substance change, I need you to tell me what the substance change is.

MR. JONES: Well, they're going from emerging markets to non-U.S. debt.

MS. WINKLER: Right.

MR. JONES: So that includes a lot more.

MS. WINKLER: Yeah, I noticed that.

MR. JONES: Yeah.

MS. WINKLER: So that's really the only change, it's dropping the term emerging market and going to the concept of dollar-denominated non-U.S. debt. Okay.

MR. DOMIESEN: Defining it as saying below triple B minus is what the 10 percent applies to.

MS. WINKLER: I understand that, but that's not new. That's not changed.

MR. DOMIESEN: It's underlined. So I think it was added.

MS. WINKLER: But they deleted domestic high-yield securities must be rated B or better as follows.

MR. DiFUSCO: Nancy's point, which is correct, is that it is outside of the part about emerging markets. It's mostly a wording change. I agree it's a fair characterization.

MS. WINKLER: Okay. I mean --

MR. DiFUSCO: No. I'm sorry if I didn't explain it correctly. Your characterization is correct.

MR. GILBERT: Any other questions?

Motion to approve the policy revision?

MS. WINKLER: And it's being recommended because it now is picking up the exact language of --

MR. DiFUSCO: It's consistent with the index.

MS. WINKLER: -- an index that we draft?

MR. DiFUSCO: Correct.

MR. GILBERT: Second?

MR. BUTKOVITZ: Second.

MR. GILBERT: Properly moved and seconded.

Any questions on the motion? All those in favor?Vote is missing here. It should be:
Mr. Butkovitz:
AyeMs. Winkler: Aye
Mr. Gilbert: Motion is approved.

MR. DOMIESEN: I have the third quarter report to review?

MR. GILBERT: Yes. Frank Domiesen with the pension investment report.

MR. DOMIESEN: I'll be brief on the background.

Markets were up 1 percent, and I'm on page 2. Markets were up in the equity market 1 percent in the three months ending mark September 30th. International markets were down 5.9 percent. All of that was strengthening of the dollar. We saw the dollar strength when you translate foreign investments that were down 6 percent. For that currency translation they were up 1 percent in the same U.S. markets. Bonds were flat for the quarter. For the months

of October we did see a (?) in equity numbers. October the S&P was up 2 and a half percent and bonds were flat for the month of October as well. It's not shown on this page.

If you go to the bonds segment of the markets, which is on page 5, the chart in the upper right, you see the second line down Barclay Aggregate, two-tenths of a percent up. What was favorable were the terms of return where the government securities and mortgage backed securities, what lagged was emerging markets and high yield. As I mentioned in the month of October, bonds were flat.

Moving to page 8 and 9, the positioning of the portfolio with respect to the allocation of equities and bonds, we are recommending within the range a neutral rating for U.S. equities as highlighted in the yellow. Same with international, valuation in the markets, fully valued on the domestic and international markets.

So you'll notice here, bonds are

still being underweighted the bottom of page 8, concern about rising interest rates. Tend more underweight in the fixed income.

If you look on page 9 your positioning for all the major asset classes are within the guidelines. There's no exceptions within the guidelines and you're actually within the tactical ranges that we've pointed out in the prior page.

So the actual allocation as of September 30th of the five hundred and three million, three hundred and forty-three thousand, is equities 53 percent, international 15, bonds 32. Benchmark for equities is 50. So you're 3 percent overweighted. For international it's 12 and a half and you're at 15. So you're 2 and a half percent overweighted. And for fixed income you're 31 percent.

MS. WINKLER: Could you repeat where we are? Oh, the 53 percent.

MR. DOMIESEN: It's small print. I apologize.

MS. WINKLER: I see that.

MR. DOMIESEN: So the 53 percent relates to the target of 50 and that little arrow shows you where you are within the band. Still overweighted in domestic equities, but within that central band.

On pages 10 and 11 we go through a review of the funds at a higher level. And show pluses where the managers outperformed benchmark, and then you also look at the peer group versus Fred Alger large cap growth outperformed for the quarter over the one year in the top 10 percent of the peer group as well as since inception.

Cooke and Bieler's large cap value manager, they have not performed in line with their benchmarks for the 2012 period. That was the one year when they underperformed. That's pulling down their three year numbers. We have them on our watch list. Since inception they've been adding value, added the benchmark. And in the month of October they were up 3 percent when the benchmark was up 2. Three year number was negative. Again, as a defensive manager in the bull market, most notably in 2012 was the year that they underperformed. So we're watching them.

DePrince was actually terminated in first week of November, first few business days of November, and those monies flowed into Northern Trust, which is indexed.

Eagle small cap growth you see negative numbers here. We're watching it, but the performance, I want to show that to you in a moment. But performance was concentrated -- the underperformance was concentrated in 2013. Year to date they're now about 150 ahead of the benchmark. And the same names that hurt them in 2013 helped them in 2014. Technology and consumer discretionary was a headwind last year, same holdings. Positive by 150. Protecting down markets is what their strategy is and they in fact have and will show that on the following pages.

Vaughan Nelson was strong across the board. The next page --

MR. JONES: Excuse me, Frank, before

you go away from that page, will you be including Rhumbline or Northern Trust on that page in the future?

MR. DOMIESEN: You can. It's indexed, but we can add that --

MR. JONES: Yeah, it might be good to know whether they're sticking to the index.

MS. WINKLER: Rhumbline?

MR. DOMIESEN: I'll talk about Rhumbline in a moment.

Page 11, Mondrian over the one year, defensive manager was held in the equity markets. International equity markets were down.

Harding-Loevner over the one year has outperformed and had a very strong quarter including October dramatically outperforming.

DFA is a small cap manager, all favorable results. And bond managers across the spectrum have all met or exceeded both of the benchmarked and the peer group medians over the one- to three-year period.

MS. WINKLER: Can I ask you a question about Harding? I'm sorry.

MR. DOMIESEN: Sure.

MS. WINKLER: They're actually underperforming versus the peer group?

MR. DOMIESEN: Yes. I can show you -- you have limited history with them since they were introduced February of 2013, so about a year. If you want to look on page 46 you can see that in a little bit more detail. It show the inception valuation. So they're represented in that chart in the upper right by the square -- that little square show just below the median 60th percentile. Return 7 percent return right below the index. That's limited history.

MS. WINKLER: Since inception refers to --

MR. DOMIESEN: Once they were put in the PGW portfolio.

MS. WINKER: So they have a greater risk -- a higher risk profile but lower return, right? Am I reading that right?

MR. DOMIESEN: During that time period overall. But let's look on page 49 -- or I'm sorry. 47. They show longer term numbers, not just the one year. But we show three and five year. First of all, the performance, the return, you see three years matching the benchmark and then five years top 11 percent of the peer group outperforming the benchmark by about 1 and a half percent. But if you look at the middle chart, the standard deviation or volatility is what she referenced, you can see the one year has been more volatile. But when you look at the three and the five years longer term history, that is in line with the benchmark -- actually below it and below the peer group median.

MS. WINKLER: So why are they now at a more risky profile?

MR. DOMIESEN: I think it was just their rating. And we had some dislocations, large segments of the market and it was up substantially and then down substantially. So they're weighting is a big piece of it, resulted in some dispersion of the terms. Nothing's changed, though, in their strategy. That would be normally a flag we would say, wait a minute, something has changed here.

MS. WINKLER: But nothing has changed here?

MR. DOMIESEN: Correct. The philosophy is consistent. The process is consistent.

MR. DiFUSCO: How did they do in October?

MR. DOMIESEN: Actually, in October they did very well. They were up 1.8 percent and the market was down 1.5. So they outperformed by 3.3 percent. So part of that volatility plays both ways.

And one thing further just to continue on that on page 49, in the top panel we show up and down markets for Harding. So what you see is the first two bars on the left just show the up market. So it keeps up -- and this is since inception. So it keeps up in the up market, but it's defensive in the down market. That's okay? I can go back to --

MS. WINKLER: Thank you.

MR. DOMIESEN: Page 12 one thing I do want to point out is the top line, Rhumbline, which is an index for the quarter underperformed, that's basically because we had significant monies moving in there during the quarter. It was about 73 million that came in and the balance is 112 million. A lot of that came in during the quarter, and during the quarter we had a very bumpy quarter S&P return.

So the money that came in after August, July and August, didn't benefit from the up market but got all the down market. So that's why. But, otherwise, we do show composite history that they're right in line with the Russell 1000 growth.

We mentioned Fred Alger top 10 percent over the trailing one year. We talked about some of these other managers. Overall, your large cap outperformed the benchmark for the quarter. Overall, your combined small cap protected in the down market. We're down about 4.4 percent when the market was down 7.4 percent. So two defensive managers played their part.

On page 13, the combined international equity, you were down less than the benchmark. The defensive strategies from both Mondrian and Harding helped. And then on the fixed income the only exception to underperformance is Janus and Lazard. Both of those are plus strategies, so they go beyond just their core index. As I mentioned earlier, emerging markets and high yield underperformed. So those portions, they have about 10 percent each in high yield. That pulled down those numbers for the quarter, but three years they're all ahead in the benchmark.

So the total fund, while it was down .6 percent, it protected the down market and the down market which was down 1.2 percent, ranking in the top 16 percent of public funds. And on the one year --

MR. JONES: I'm sorry. Was that for the quarter, Frank, the top 16 percent for the quarter?

MR. DOMIESEN: Yes, that's shown on page 16.

MR. RUBIN: What does that mean?

MR. DOMIESEN: Pardon me?

MR. RUBIN: What does that mean?

MR. DOMIESEN: We looked at all public plans below a billion dollars and say on a peer group comparison how did they rank?

MR. RUBIN: So when you say a peer group, do you go in and find out what their liabilities are an how much they're spending monthly? I mean, when we talk about peer groups I get very confused because no plan is exactly the same, right? So we have a different investment strategy, we're either more aggressive or less aggressive? So when you say 16, does that mean that they have the same investment strategy and things that we're doing?

MR. DOMIESEN: Not necessarily

because we just look at plans that are defined by the size, below a billion dollars.

MR. RUBIN: So if we earn more than X amount of dollars, then we've earned more than those other plans, so, therefore, we're rated higher?

MR. DOMIESEN: Yes.

MR. RUBIN: So how does that really impact what we do?

MR. DOMIESEN: We're looking at page -- look at page 16. It's up here. We look at both. We look at target market index.

MR. RUBIN: Right. I get that part of it. But what does that really mean to us? I mean, it sounds nice that you're in whatever percentage. But how do we really know what that means in the grand scheme of what we're doing?

MR. DOMIESEN: We're -- it's just a comparable. We look at the target market index. And if the target market index is fairly represented in that peer group, we're saying it's a fair measure of your specific -- what you're doing specifically. So, again, if you look at page 16, it's saying that -- and I'm looking at the comparative line, pick the three year as an example, you're up 13.8 percent and the target index was up 13.8. So you basically matched it and it ranked in the top 39 percent of the peer group.

So your strategy during that last three years is consistent with the target index, but happens to be above the median in the peer group. Part of that is because your strategy was more favorable than the overall universe of 415 public plans.

So if we were trying to use to say what does this mean specifically if we see an outlier, that's when that would flash to us. Let's say we saw the target market index was right in line with the median fund but you're ranked in the 90th percentile, then we would dig in and say what's different about your plan versus the peer group median. What we have here is saying you're in line with the peer group median and your benchmark that you follow has return better in the last three years. It's just a peer group comparisons. We look at the absolute target market index, and there you're at or above it and you've not taken on anymore risks than the peer group averages.

MR. RUBIN: Okay.

MR. DOMIESEN: Sometimes when the indices are hard to beat it could be they're in the top 5 percent of the peer group because they have all reached or all Apple stock that did very well and your fund doesn't have it. So then we look at the peer groups to see how others have done.

MR. RUBIN: Okay. Thanks.

MR. DOMIESEN: So summarized on page 13 performance, we reviewed that. I will now move since we talked about the peer groups to page 20.

Page 20 you see the portfolio as of September 30th, five hundred three million three hundred and forty-three thousand --

MS. WINKLER: I'm sorry. What page

are you on, Frank?

MR. JONES: 20.

MS. WINKLER: I just had to ask one quick question because I got a little behind you there. So on the rolling three-year average performance versus all public plans less than a billion for five years?

MR. DOMIESEN: Yes.

MS. WINKLER: We're below; is that right?

MR. DOMIESEN: You're above the median at least going back to June of 2013. And you're tracking -- you're just below the index. And as of September 30th --

MS. WINKLER: I'm sorry. Which chart are you looking at?

MR. DOMIESEN: I'm looking at page 17.

MS. WINKLER: Yeah, I'm on page 17.

MR. DOMIESEN: Is that where you're looking?

MS. WINKLER: Yes. So the total fund is the blue box, that's us, right?

MR. DOMIESEN: Yeah. And it's

taking a snapshot looking back three years
as of each quarter.
MS. WINKLER: And so when we're
below the red dot, that's underperformance?
MR. DOMIESEN: That's missing the
benchmark, yes.
MS. WINKLER: Right. So we seem to
be pretty consistently in the last few years
under the red dot?
MR. DOMIESEN: Well, if I look at
the rolling -- yeah, in the last three
years, and that's what led to some of the
changes in the large cap. We got rid of the
active managers to better track and we made
some changes there. We also made changes in
the small cap. And also when you're above
the 50 percentile line that's saying you're
in the top half of that peer group.
MS. WINKLER: Right.
MR. DOMIESEN: And if you look at
the percentages, right below that the dots
and the graph, if you look where it says
total period, first quartile, second quartile,
third quartile, you were in the top half of

the peer group 70 percent of the time, right. Thirty percent -- you know, 100 minus 30 gives you 70 percent. So you were in the top half segment. And the index was in the top half 65 percent of the time.

MS. WINKLER: Okay. Thank you.

MR. DOMIESEN: Performance for the month of October overall was up plus 1 --

MS. WINKLER: What page are you on now?

MR. DOMIESEN: That's not on any booklet here. This is for September. But basically the markets were favorable and you were up 1.6 percent in October. The benchmark was up 1.5 percent.

MR. JONES: That's the total fund?

MR. DOMIESEN: Total fund. That's estimated. That's all I have for the quarterly review.

MS. WINKLER: And what's our market value now?

MR. DOMIESEN: I don't have that. I wasn't able to get the valuations.

MS. WINKLER: Do you know what it is

now, Chris?

MR. DiFUSCO: Yeah. It's -- this is -- it's part of that. So it's 475 million not counting Rhumbline.

MR. JONES: Which is approximately 37?

MR. DiFUSCO: Thirty-seven.

MS. WINKLER: Four seventy-five plus --

MR. DiFUSCO: Five twelve.

MS. WINKLER: Okay.

MR. DOMIESEN: Yeah, about five twelve.

MS. WINKLER: Okay.

MR. GILBERT: Any questions for Frank?

Motion to accept the report?

MS. WINKLER: I make a motion to accept the report.

MR. BUTKOVITZ: Second.

MR. GILBERT: Any questions on the motion? Motion is in favor.

Thank you, Frank.

The tentative schedule for 2015 will

be February 11th, May 13th, September 9th, November 18th. Agree to have a motion to adopt that schedule?

MS. WINKLER: So moved.

MR. GILBERT: Second?

MR. BUTKOVITZ: Second.

MR. GILBERT: Properly moved to second. Any questions on the motion?

All those in favor?

MS. WINKLER: Aye.

MR. BUTKOVITZ: Aye.

MR. GILBERT: Motion carries.

Any additional business?

MS. WINKLER: I don't know if this inspires remorse or just a desire to make sure we not put PGW in a position that will make it difficult to get through 2016 because I don't think PGW has a rate increase in '16. So we probably just want to make sure we hear from PGW management on what the effect of the going 1.6 -- sorry -- 7.65 percent has on the PGW operations and that surface coverage because I do think that should have probably been discussed as part of the consideration. In general I think it's a good idea to have a discount rate that's in line with the performance that we're managing to. Would that be -- make that a motion?

MR. BUTKOVITZ: Didn't we already pass that motion?

MS. WINKLER: We did. I just want to hear back from them on what that does.

MR. BUTKOVITZ: I'll second the motion.

MR. GILBERT: Properly moved and seconded.

Any questions on the motion?

All those in favor?

MS. WINKLER: Aye.

MR. GILBERT: Motion granted.

Any additional business?

Motion to adjourn.

MS. WINKLER: Motion to adjourn.

MR. BUTKOVITZ: Second.

MR. GILBERT: We are adjourned.

MS. WINKLER: Thank you.

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(Whereupon, the meeting ended at 1:15 p.m.)

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C E R T I F I C A T I O N

I hereby certify that the proceedings and evidence noted are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on Wednesday, November 12, 2014, and that this is a correct transcript of the same.

Wanda M. Barnum
Court Reporter and Notary Public

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LAWYER'S NOTES

PAGE	LINE