

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

In Re: Quarterly Meeting

- - - - -

Wednesday, November 18, 2015

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This Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned cause, before Serena A. Spotts, Professional 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 11:00 a.m., pursuant to the State of Pennsylvania General Court Rules.

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Sinking Fund Commission - Quarterly Meeting
November 18, 2015

APPEARANCES:

COMMISSION MEMBERS:

Benjamin Gilbert, Chairman

Alan Butkovitz, Commissioner

Nancy Winkler, Alternate for Mr. Dubow

ALSO PRESENT:

Charles Jones, Executive Director

Matthew Mazza, Assistant Treasurer

Christopher DiFusco, Chief Investment Officer,

PGWPP

Frank Gomiesen, Gallagher Fiduciary Advisors

Marvin Devers, Gallagher Fiduciary Advisors

Adam Colman, City Law Department

Jeff Hornstein, Controller

ALSO PRESENT:

Dan Leonard, PGW

Janet Werner, Wells Fargo

Jo Rosenberger Altman, City Law Department

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 3

1 P R O C E E D I N G S

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3 MR. GILBERT: The minutes of the
4 last meeting were circulated by way of
5 email. Are there any questions,
6 corrections and/or additions to those
7 minutes?

8 Hearing none, may I have a
9 motion to accept the minutes from
10 September 9th?

11 MR. BUTKOVITZ: I've move.

12 MR. GILBERT: Any questions on
13 the motion? All in favor?

14 MS. WINKLER: I didn't have the
15 minutes. I'm apologize.

16 MR. GILBERT: Motion carries.
17 The quarterly Sinking Fund statements were
18 also circulated, also in the packet for
19 Sinking Fund for September 30, 2015. Any
20 questions on those statements?

21 MS. WINKLER: I have a comment
22 to make about them, which is they continue
23 to be labeled in a manner in which I, as
24 city treasurer, cannot understand them.

1 Just before the start of the meeting, the
2 new Sinking Fund executive director, who
3 apparently doesn't fully understand them
4 either. I don't mean -- It's just a
5 statement. It's not a value judgment. I
6 want to continue to raise the concerns I've
7 raised in the past that they are not
8 clearly labeled, and I don't understand why
9 we have these particular statements
10 organized the way they have in the past.
11 I've been told that's the way we always do
12 it. That's never been a very good answer
13 to me.

14 I propose that the treasurer's
15 office sit down with the Sinking Fund and
16 the accounting department and talk about
17 what -- I don't understand what we're even
18 approving here. I'm uncomfortable voting
19 on them. So I won't be voting on it. And
20 I would suggest that there be a meeting to
21 discuss revising these reports so that they
22 have some value to the people reading them
23 so that they understand what they say.

24 MR. BUTKOVITZ: I won't vote on

1 them either.

2 MR. GILBERT: Is there a motion
3 to table this statement?

4 MS. WINKLER: I'll make a
5 motion.

6 MR. BUTKOVITZ: I second it.

7 MR. GILBERT: Any questions on
8 the motion? All those in favor?

9 MS. WINKLER: Aye.

10 MR. BUTKOVITZ: Aye.

11 MR. GILBERT: The statements are
12 tabled. The PGW pension fund statement for
13 September 30, 2015 also in the packet. Any
14 questions on those statements?

15 Hearing none, may I have a
16 motion to accept the PGW pension plan
17 statement for September 30, 2015?

18 MS. WINKLER: Make a motion.

19 MR. GILBERT: Second?

20 MR. BUTKOVITZ: Second.

21 MR. GILBERT: Any questions on
22 the motion? All those in favor?

23 MS. WINKLER: Aye.

24 MR. BUTKOVITZ: Aye.

1 MR. GILBERT: Motion carries.

2 Thank you. The PGW pension plan
3 investment. Frank, you're on.

4 MR. DOMIESEN: Good morning.

5 I'm joined today with Marvin Devers.
6 Marvin's a colleague, and we work together
7 on several accounts. And he's here today
8 to be with us and to look at the market
9 background. Marvin and I are on your
10 account together.

11 So, with that, I've asked Marvin
12 just to touch on the market background. We
13 have two reports. We have the September 30
14 ending report, and we also have October.
15 We'll talk briefly about the third quarter
16 and then update you for October.

17 MR. DEVERS: Third quarter was a
18 challenging period for all risk assets as
19 they sold off in late August into
20 September. This was predominantly driven
21 by fears of global growth that extended out
22 for emerging markets. The quarter also
23 continued to be hampered by weak commodity
24 prices, which dented emerging market

1 economies across the globe.

2 This benefited risk offset, such
3 as high quality fixed income. As we get
4 into the report, you'll notice that the
5 high quality managers, those that aren't
6 core plus, had stronger performance in the
7 fixed income side. Across the board, it
8 was a challenging market environment.

9 As we move into the October
10 report, which Frank will touch on, we did
11 see a very strong V shaped recovery in
12 equity markets. Nothing significantly
13 changed from a fundamental story. There
14 was no new economic news that went from the
15 third quarter to October. It just
16 demonstrated that, given where evaluations
17 are in the market, equities as a whole are
18 going to be very sensitive to fluctuations
19 in investor sentiment. And as a result,
20 you're going to see volatility, both good
21 and bad, across markets.

22 MR. DOMIESEN: Several others
23 points I would like to share, is that if
24 you look at page 3 -- page numbers are in

1 the lower left. If you look at sector
2 performance in the lower -- the chart in
3 the lower right -- the green bar represents
4 one year. The blue bars represent for the
5 quarter. Again, if the SOP was off
6 6.4 percent in the quarter, and in October,
7 it was up 8.4 percent.

8 If you look at the sectors, in
9 particular energy sold off, continued
10 pressure there while price was falling.
11 You see that for the quarter. It was down
12 17.4 percent. Also, healthcare was down
13 about 11 percent, unlike the first quarter
14 and over the trailing last year where the
15 higher quality healthcare sector had done
16 well.

17 The other area that did perform
18 well, again, with respect to higher
19 quality, if you look at consumer staples,
20 it was flat for the quarter and positive
21 over the last year of 7.1 percent. That's
22 also demonstrating the bias towards higher
23 quality with consumer staples doing better
24 --

1 MR. BUTKOVITZ: Why was
2 healthcare down?

3 MR. DEVERS: Healthcare was down
4 predominantly based on comments made by
5 political figures that impacted
6 pharmaceutical markets. It has been --

7 MR. BUTKOVITZ: Are people
8 objecting to the ten thousand percent price
9 increases in certain drugs? That's what
10 drove it down?

11 MR. DEVERS: That's what drove
12 down a lot of selling in space. That's
13 correct. Because people viewed the
14 comments as expectations that there is
15 going to be more controls, more regulation
16 in the space, which is going to hurt profit
17 growth. These segments of the market do
18 have evaluation that exceeds the current
19 market. Given that overvaluation and the
20 expectation of high growth continuing, when
21 you see that type of comment, you're going
22 to see investors fleet.

23 MR. DOMIESEN: I also point out
24 at the bottom of this chart you see

1 utilities, which was favorable for the
2 quarter, being up 5.4 percent. Again,
3 here, investors looking for yield as
4 opposed to bond prices -- bond segment of
5 the market where yields have continued to
6 drop during the quarter. We'll touch on
7 October when we have the October
8 performance.

9 MR. BUTKOVITZ: What's the
10 anticipated impact of this potential
11 Chinese bubble on the outlook?

12 MR. DEVERS: The Chinese market,
13 there is varying degrees. I think the more
14 interesting thing that it's potentially
15 going to play out in China outside of the
16 equity markets is, right now, given they
17 are pegged the U.S. dollar, they are in a
18 position where they are actually selling
19 about \$150 to \$300 billion of U.S.
20 treasuries a month, to then come back and
21 purchase their wong [ph] to essentially
22 hold that peg. Defacto as a pegged
23 currency, you're tied to U.S. monetary
24 policy.

1 With the potential rise in U.S.
2 rates coming, the strengthening U.S.
3 dollar, capitals fleeing the Chinese
4 market, what's interesting here is that
5 China has about -- I'm sorry -- about
6 3 trillion, a little less than that in
7 liquid reserves. As they continue to sell
8 off their treasury holdings, their currency
9 could become under pressure in the future.

10 Based on some conversations of
11 other individuals, China could be put in a
12 scenario where they are faced with either
13 supporting their economy by essentially
14 launching a fiscal stimulus or supporting
15 their currency and holding the peg to the
16 U.S. dollar. You can't have both in this
17 scenario. It's more likely that they are
18 going to devalue their currently more and
19 support their economy with more stimulus
20 across the board.

21 MR. BUTKOVITZ: Who are they
22 selling the U.S. treasuries to?

23 MR. DEVERS: Broad market. You
24 hold the reserves, and those are held in

1 treasuries. You sell that on the open
2 market. By selling that, they turn around
3 and repurchase wong, which adds the
4 strength to the wong.

5 MR. BUTKOVITZ: What about the
6 slow down and their demand for raw
7 materials?

8 MR. DEVERS: Certainly that's
9 the play of the argument that they are
10 going to have to drop their support for
11 their currency and actually support their
12 domestic economy with fiscal stimulus and
13 monetary stimulus. Their defacto held to
14 U.S. monetary policy.

15 MR. BUTKOVITZ: So the
16 conclusion is they are not going to cut
17 back on their consumption of raw materials
18 and all that?

19 MR. DEVERS: Yes.

20 MR. BUTKOVITZ: Is that the
21 consensus view?

22 MR. DEVERS: That's what a lot
23 of people see in the market. I certainly
24 don't think there is a consensus out there

1 on what the Chinese are going to do to
2 support their economy.

3 MR. BUTKOVITZ: Okay. There had
4 been a lot of discussion about us having
5 gotten to a maximum point in the maturation
6 of the bull market. Is that still --

7 MR. DEVERS: We're certainly in
8 the latter stages of it. What I would say
9 is looking out the next one to three years,
10 there is no signs of a recession pending on
11 the U.S. economy. If you want to tie
12 equity market strength to U.S. GDP growth,
13 which, over long terms, is shown to be no
14 relationship. In the short term, they can
15 be higher correlated, and that would
16 suggest that the equity market still has
17 room to move higher.

18 The bigger question though is
19 can U.S. companies actually grow their
20 earnings. What we're seeing in the third
21 quarter is the first decline in U.S.
22 earnings on a market basis. So as U.S.
23 earnings decline, your price per earnings
24 or PE value goes up, and your stocks become

1 more expensive.

2 If we can correct that and
3 actually see growth from an earnings basis
4 on companies, then you still additionally
5 see higher moves in the equity markets.
6 We're certainly in the later stages.
7 That's demonstrated by the volatility that
8 we're seeing.

9 MR. BUTKOVITZ: So does it make
10 sense to stay in tact with our equity
11 positions?

12 MR. DEVERS: We certainly had
13 conversations with Chris and Matt about
14 looking at strategies that could de-risk or
15 take a little equity risk off the table
16 that are strategies that aren't just fixed
17 income.

18 MR. MAZZA: We also on
19 international space wanted to propose to
20 the commissioners if we could go to an
21 index based -- put an RPF for an index
22 based management in international space to
23 save some money on feeds and chase overturn
24 that way. So we wanted to see if we could

1 get your approval.

2 This is going to be a six-month
3 process nonetheless. It seems our
4 international equity managers have been
5 getting hit especially hard with the whole
6 downturn. And if we could save money on
7 fees where these managers are falling.
8 It's quite very closely. Might as well go
9 to an index based platform.

10 MS. WINKLER: You're talking
11 about a reallocation of the portfolio to
12 reduce risk?

13 MR. MAZZA: I think personally
14 for what has happened to us in the
15 international equity markets, it would be
16 foolish for us to change our asset
17 allocation right now, and that's based to
18 get out of the markets while it's at the
19 bottom. If we've already gotten hit so far
20 with the markets taking a beating --

21 MR. BUTKOVITZ: That's the
22 issue. I mean, I've been reading articles
23 that say we're going to lose a lot of value
24 and that there has been a retreat to cash

1 in the market. And are we just going to
2 sit there passively and watch value fall
3 through the --

4 MR. DOMIESEN: We talked with
5 staff, as well, on moving cash each month
6 for payment -- benefit payments. We're
7 harvesting, we're talking with staff, we're
8 harvesting that from the equities as -- to
9 bring down the allocation. There is --
10 it's pretty much in line, slightly
11 overweighted, versus the target waiting by
12 bringing that down through those monthly --

13 MR. BUTKOVITZ: Two or three
14 times a week I see 200 point drops in the
15 Dow Jones. My heart is in my mouth. Then
16 it comes back again and goes up by eight
17 dollars or something. I don't really --
18 don't like that. And I don't know. My
19 instinct is that we should kind of hide out
20 for a while until it becomes less volatile.

21 MR. MAZZA: I think we've got to
22 have patience in this aspect for -- with
23 the equity markets. It's the fixed income
24 markets that I'm mostly worried about with

1 the rising rate environment. For lower
2 asset allocation right now, it would be the
3 lower asset allocation towards fixed income
4 managers whose current holdings are only
5 going to go down as rates are known to have
6 risen or rise in December and possibly
7 March. That's what I would do.

8 MR. BUTKOVITZ: You expect to
9 decline in bond holdings?

10 MR. DEVERS: It's highly likely.
11 Currently investors are pricing these at 70
12 percent probability that the Fed will move
13 in December to raise rates. It's going to
14 be in the short end of the curve, 25 basis
15 points. It's most likely not going to move
16 the back end of the curve up very much as
17 our stronger dollar and higher rates look
18 more attractive to international money.

19 That's going to flow back into
20 the U.S. If they do move in December, they
21 will most likely -- if the economy stays on
22 track to the move in March, and then
23 they'll delay because the Fed tends not to
24 move during a political year -- during an

1 election year as not to be viewed as a
2 political source.

3 MS. WINKLER: That's
4 interesting. For the treasurers office, we
5 just did our round of meetings with our
6 short term cash managers. That's the space
7 they focus on the most. And pretty much to
8 a firm that came in, Black Rock, Wells, PFM
9 came in last week and presented.

10 They were all looking -- they
11 said the market consensus on the number of
12 Fed moves next year is either four or five,
13 counting this December. So for
14 accumulative increase over -- so every
15 other Fed meeting between now to
16 December 2016 is looking for 100 basis
17 point aggregate total move. But the shape
18 of the yield curve just shifting to being
19 more flat, and so, we wouldn't -- I think
20 to your point that you made a moment ago
21 that the back end -- I don't remember where
22 our duration is in our bond portfolios, but
23 this is more likely to effect short
24 duration, which of course, if you keep your

1 money really short, it has very little
2 effect.

3 Only upside in earnings
4 potential, you know, if you have cash but
5 less on the back end where, maybe no impact
6 on the back end --

7 MR. MAZZA: That problem is
8 though with that fixed income managers,
9 they've been keeping that duration in the
10 three to five year range, which is where
11 everything is going to be severely effected
12 during a great rise, especially if there is
13 going to be four to five -- I think that,
14 you know, a significant amount of rises in
15 rates in next year, during election year,
16 is highly unlikely. That's my opinion. I
17 don't know why the Fed would do that in
18 this election year.

19 MS. WINKLER: They did it to
20 Bush. And he didn't get reelected;
21 remember? That was the last time the Fed
22 did a bunch of moves --

23 MR. DEVERS: In the early 90s --

24 MS. WINKLER: In the year

1 leading into the election.

2 MR. MAZZA: It's also partly
3 noted in our fixed income managers, Logan
4 Circle or Garcia Hamilton, sitting on a lot
5 of cash. Folks are very, very aware of
6 what to do right now, especially since
7 their duration is in that three to five
8 year range. They know they are going to
9 get hit --

10 MS. WINKLER: Is that where we
11 see ourselves to be most vulnerable?

12 MR. DIFUSCO: Yeah. Matt's
13 exactly right.

14 MR. MAZZA: Fixed income is
15 definitely where our vulnerability is.

16 MS. WINKLER: I'm talking about
17 the three to five --

18 MR. DIFUSCO: To Al, two points
19 I'd make to Al's questions. I think some
20 of the other things we're doing in terms of
21 being more defensive, we're obviously
22 increasing our cash position. That's where
23 Matt's talking about the fixed income
24 managers doing it. But staff has been

1 proactively in conjunction with this change
2 to the benefit payments structure where
3 we're now funding to the payments directly.
4 We've also been putting more cash on the
5 side lines. We have two or three months of
6 benefit payments. We have a larger cash
7 position than we have --

8 MS. WINKLER: How's that
9 invested, the cash?

10 MR. DIFUSCO: It's just in cash,
11 money market. It's in the money market.
12 The other thing, Al, I think you'll see not
13 only from Frank at the next meeting but
14 from others who would be coming into to
15 present, there are going to be suggestions
16 not only from Frank but from other
17 consultant candidates directly to address
18 your point.

19 Does this continue to be the
20 asset allocation that we should be in, or
21 should we be looking at making changes
22 whether it's out of -- having too high an
23 allocation to equities and maybe putting
24 things in other spaces. This is not

1 something where I think you're out of an
2 island or asking the incorrect question.

3 MR. BUTKOVITZ: Are we -- we
4 have too much exposure in equities or too
5 much exposure in fixed income?

6 MR. MAZZA: I think in fixed
7 income 100 percent. If we lower our
8 exposure in fixed income from, you know,
9 the 35 percent bogey that we have down to
10 the 25, 20 percent area, especially since
11 our duration with a majority of the fixed
12 income managers is in the three to five
13 year range, and we add in a 10 percent, 15
14 percent exposure to alternatives or some
15 other asset allocation, that will give us a
16 better shot at hitting our 765 bogey going
17 forward.

18 MS. WINKLER: This seems -- I'd
19 like to ask that we all be very
20 deliberative and thoughtful about this and
21 have -- really hear from people about it
22 because these are fairly complicated
23 decisions.

24 MR. MAZZA: When we say

1 alternatives, we mean everything from hedge
2 funds to bonds to high yield bonds. We're
3 not talking about anything that's crazy in
4 terms of feed. We want to make sure we
5 have the ability to hit our return bogey in
6 terms of 765 based on our actuary
7 assumptions to make sure that we can get
8 this thing fully funded by the year 2035.
9 We need to hit 765, and we're not going to
10 hit that at our current asset allocation.
11 You are right. By lowering our asset
12 allocation to fixed income and adding a
13 certain percentage to alternatives, whether
14 that's high yield bonds --

15 MS. WINKLER: Right. That may
16 be another option. Another option to think
17 about would be further lowering the return
18 assumptions. I don't know that you -- as
19 staff, you should necessarily think of that
20 as a given that's in-mootable and
21 unchangeable. It's possible that another
22 way to think about it would be that -- we
23 really need to start with what's the risk
24 profile and what's the probability of us

1 getting to our goal with different
2 portfolio compositions given the goal.

3 And if we can't get there, we've
4 all seen those kinds of analyzes. And we
5 maybe -- if we want more assurance and
6 confidence, bringing down the return is
7 another possible avenue of consideration.

8 MR. DIFUSCO: Yes. I didn't
9 mean to interrupt. I think that's part of
10 what you'll hear at the next meeting, is
11 it's a possibility when you see where the
12 current -- the likely expected return based
13 on the current models could get us. That
14 is another viable option, would be to lower
15 the --

16 MS. WINKLER: That's what you're
17 talking about as well, Alan?

18 MR. BUTKOVITZ: Yes.

19 MR. DIFUSCO: The questions are
20 good questions, and they are exactly on
21 point. I think you will hear a lot of that
22 when you see the presentations at the next
23 meeting in terms of possible asset
24 allocations.

1 MR. MAZZA: Every investment
2 solely met with, including our calendar,
3 has said that based on our current asset
4 allocation at 765 --

5 MS. WINKLER: Based on our
6 current --

7 MR. MAZZA: Yes.
8 -- can be very difficult to come
9 by.

10 MR. BUTKOVITZ: How close do
11 they think we'll come? What do they think?

12 MR. MAZZA: The highest folks
13 said in terms of total return that we're
14 going to get in our current asset
15 allocation, based on their capital market
16 assumptions, it was in the high sixs.

17 Is that correct?

18 MR. DOMIESEN: Correct. That's
19 correct.

20 MR. BUTKOVITZ: That's the most
21 optimistic. What's the midpoint?

22 MR. MAZZA: Low fives.

23 MS. WINKLER: Midpoint is the
24 low fives?

1 MR. MAZZA: You never know.

2 These -- once again, these are capital
3 market assumptions. No one wants the fact
4 that their capital market assumptions of
5 probabilities because, at the end of the
6 year, they are always almost all wrong, you
7 know. People come up with their capital
8 market projections and say, hey, this is
9 what we think is going to happen to the
10 market, and then it's completely opposite.
11 These guys know. You're never going to
12 stand by your assumptions at the beginning
13 of the year.

14 MR. DEVERS: Anymore questions
15 on the market, or should Frank get into the
16 portfolio?

17 MR. BUTKOVITZ: No. That's not
18 as bad as I thought. I thought we were in
19 a position for absolute loss.

20 MR. MAZZA: No.

21 MR. BUTKOVITZ: Okay.

22 MR. DOMIESEN: Okay. I'm going
23 to touch on page 9. As of September 30th
24 still, we're looking at the total

1 portfolio, and it shows the number
2 valuation. We'll get into detail in a
3 moment. 478,9 and 117,000. And the
4 distribution across the major asset
5 classes, within the domestic equity, you're
6 at 53 percent with the target of 50. So
7 three percent overweighting. Again, we
8 mentioned that we worked with staff, and
9 we're saying harvest the profits as we take
10 out and put them aside for cash for benefit
11 payments, take those out of the domestic
12 equities.

13 MS. WINKLER: Am I crazy? Am --
14 what was that? What was the value of the
15 portfolio in the end of the year 20 --
16 fiscal '14, end of the fiscal year?

17 MR. MAZZA: 514 million maybe.

18 MS. WINKLER: Okay.

19 MR. MAZZA: Something like that.
20 We had a downturn in the markets that
21 effected us. We also had the contributions
22 that we're now paying out of the pension
23 fund for the pensioners, and we put a
24 little extra cash in there. That would

1 show there was a higher rate of
2 contribution --

3 MS. WINKLER: Does this 478
4 include the cash?

5 MR. MAZZA: It should, yes.

6 MR. DEVERS: It includes --

7 MR. DOMIESEN: No. There is --
8 it goes to detail on page 20.

9 MR. MAZZA: There another two
10 and a half million in cash.

11 MR. DIFUSCO: As of this
12 morning, it's just under 493. It's like
13 492.9, 492.7.

14 MR. JONES: 492.7.

15 MR. DIFUSCO: Thank you.

16 MR. DOMIESEN: The overall
17 allocation back on page 9, again, for
18 domestic equities is 53 percent,
19 international 13, slight underweighted
20 versus a target of 15 percent target. And
21 then fixed income is about 34 percent with
22 a target of 35 percent. So fairly close to
23 the target weightings. Again, we had
24 talked about the staff -- about harvesting

1 some of that on monthly cash needs from the
2 equity model.

3 All right. So page -- go right
4 to the performance page. I think that
5 would be best. That's on page 12 and 13.
6 If we start with page 13, which shows the
7 very bottom line, the plan quarter column,
8 which is the second from the left quarter
9 column, it was off 5.7 percent, and the
10 benchmark that we looked at was off
11 5.4 percent. It did underperform by
12 approximately 35 basis points.

13 Where did that come from? If we
14 start on the fixed income, which is right
15 above it, you have four managers. Two are
16 measured against the Barclays Aggregate
17 Index, which is the broad market, and this
18 Barclays Logan Circle. You can see here,
19 for the quarter, Barksdale slightly
20 outperformed benchmark. Logan Circle
21 underperformed.

22 A lot of that was due to two
23 things I mentioned already. I heard a
24 comment about the cash level that they

1 have. They tend to be very short. Shorter
2 maturities hurt them on the quarter and the
3 cash level as well. On the two other
4 managers, Lazard and Garcia, Lazard is more
5 of a tilt towards credit bonds. And,
6 again, the exposure to credit being higher
7 risk than government and treasuries
8 underperform higher quality.

9 MR. BUTKOVITZ: What do you mean
10 exactly? That's pretty traumatic. There
11 were defaults, nonpayments?

12 MR. DEVERS: No. The high yield
13 that -- as spreads widen across the board,
14 high yielded was down about 4.3 percent. So
15 allocation to lower credit securities was
16 at the detractor in returns overall.

17 MR. DOMIESEN: They tend to
18 have.

19 MR. DEVERS: It's not defaults.
20 It's just bonds prices are going down as a
21 result of pricing in additional risk.

22 MR. DOMIESEN: It was the sell
23 off of corporate bonds in favor of
24 treasuries, risk off, investor risk off.

1 The demands drove those prices.

2 MS. WINKLER: What's the yield
3 on the Lazard portfolio?

4 MR. DOMIESEN: I don't have that
5 with me right now.

6 MS. WINKLER: We were into that
7 for income; right?

8 MR. DEVERS: Yes. Correct. And
9 the higher income from the credit.

10 MR. DIFUSCO: I'll get you the
11 most up-to-date numbers. We'll send it to
12 you.

13 MS. WINKLER: Yeah.

14 MR. DIFUSCO: We'll send it to
15 her.

16 MR. DOMIESEN: The -- s the
17 fixed income in aggregate was, for the
18 quarter, up 1 percent, and the benchmark
19 was up 1.1. That's component one, part of
20 the performance issue for the overall
21 funds.

22 Right above that, the top of the
23 panel of this page is the international
24 managers. Mondrian is the defense of value

1 strategy, and Harding Loevner is the growth
2 manager. We've spoken, again, with staff
3 about Harding Loevner, as well as the
4 overall exposure here in the developed
5 markets. Mondrian has added value, which
6 is at the benchmark. And that's measured
7 against the international value benchmark.

8 Harding Loevner has not. They
9 have underperformed. One of the elements
10 here is on the trailing year to date and
11 one year number. They have about
12 13 percent exposure to emerging markets.
13 The benchmark does not. One of the issues
14 here is they've crept up on their
15 emerging market, and that's hurt them.

16 In the month of October, they
17 actually out performed in a rebound of the
18 international markets. However, in
19 reviewing this again with staff, we think
20 that there is room at the end of the day
21 when you put the two pieces together we're
22 not coming close enough to the benchmarks,
23 such that recommend would consider indexing
24 part of these two strategies. At the end

1 of the day, net-a-fees, there's not a lot
2 of value added. You can see that in the
3 longer run.

4 MS. WINKLER: Sorry.
5 Net-a-fees, there is not a lot of value
6 added with Harding Loevner?

7 MR. DOMIESEN: Correct.

8 MR. BUTKOVITZ: You're basing it
9 on the one year track record?

10 MR. MAZZA: Yeah.

11 MR. BUTKOVITZ: Where is the
12 longer --

13 MR. DOMIESEN: You just added
14 point 71 versus 3.35.

15 MS. WINKLER: Harding Loevner
16 was added in February of 2013; correct?

17 MR. DOMIESEN: Correct.

18 MR. DEVERS: So the fund over
19 five years is up 3.7 percent versus the
20 benchmark of 4.83. Over five years, it's
21 underperformed by 1.1 percent.

22 MR. DIFUSCO: How much of that
23 is due to the fee drag? What's the
24 composite on that?

1 MR. DOMIESEN: That's
2 net-a-fees.

3 MS. WINKLER: What was the
4 rational for recommending them to begin
5 with?

6 MR. DEVERS: Prior to the last
7 two calendar quarters -- calendar years, I
8 think it was 2013 --

9 MS. WINKLER: When we made the
10 decision to hire them, what was the
11 recommendation?

12 MR. DEVERS: Coming into this
13 period, they had strong performance, strong
14 track records. Since bringing them in,
15 they had two rough years that has
16 contracted from their performance.

17 MS. WINKLER: What's caused
18 that?

19 MR. DEVERS: It was stock
20 selection and positioning around countries,
21 country allocation.

22 MR. DOMIESEN: Coming into the
23 time period, they had better downside
24 protection.

1 MS. WINKLER: I thought that's
2 what I remembered. It was the downside
3 protection. Right.

4 MR. DIFUSCO: I probably didn't
5 articulate my question. I get that it's a
6 net-a-fee number. I guess my point is, how
7 much of that net underperformance is
8 because of the fee? If they are trailing
9 by 115, is the fee 100 basis points, and
10 therefore, that's making up the --

11 MR. JONES: The fee is probably
12 in the 85 to 90 basis points range.

13 MR. DEVERS: That's a mutual
14 fund. That's net net. If you grossed it
15 up and removed the fee, you'd be
16 underperforming by I guess 20, 30 basis
17 points.

18 MR. DIFUSCO: The bulk of the
19 underperformance --

20 MR. MAZZA: If we index that --

21 MS. WINKLER: You're
22 recommending getting rid of them and moving
23 them to index?

24 MR. MAZZA: Also, the benchmark

1 has no exposure to emerging markets. This
2 Harding Loevner has 13 percent exposure.
3 Index is -- our index funds very, very
4 similarly trail the benchmark. That means
5 we would have saved on fees and been closer
6 to the benchmark if we just indexed this
7 instead of hiring Harding Loevner.

8 I would ask the commissioners if
9 we could put an RPF out for an index
10 manager at international equities. If you
11 guys could approve that, we'd greatly
12 appreciate it.

13 MR. DOMIESEN: Excuse me. You
14 may want to consider that on a blended
15 index as opposed to just a growth only.

16 MR. MAZZA: Blended is fine.

17 MR. DOMIESEN: At the end of the
18 day, when you put the value and the growth
19 together, the blended index would cover
20 that, growth and value.

21 On the prior page, page 12, if
22 we look at the small cap -- or you can look
23 at the large cap. And that's index
24 primarily to Rhumblin and Northern Trust.

1 You have do have active managers, Fred
2 Alger on the growth side. Longer term
3 numbers, they've been favorable to the
4 benchmark when you look over the three year
5 number, 14.6 percent versus the benchmark
6 of 13.6. The recent quarter hurt them.

7 They were underweighted staples,
8 which are more conservative, more defensive
9 category. They were overweighted
10 healthcare. The comments from earlier,
11 healthcare had underperformed. Those mines
12 are now at the end of October had moved to
13 -- sorry -- I'm still with Fred Alger.

14 Cooke & Bieler is the one that
15 transitioned at the end of October into
16 O'Shannessy [ph], which is replacing Cooke
17 & Bieler on the value side.

18 MS. WINKLER: Cooke & Bieler
19 will be out on your next quarter?

20 MR. DOMIESEN: We still show it
21 in the October. It moved at the very end
22 of October. We still show a majority of --
23 either it was very close to the end of the
24 month, and I think there was some residual

1 money that moved after the end of the
2 month.

3 ATTENDEE: It was October 23rd.

4 MR. DOMIESEN: All of it?

5 ATTENDEE: Uh-huh. There may
6 have been some residual cash.

7 MR. DEVERS: So we'll be out at
8 the end of the quarter. Correct.

9 MS. WINKLER: Thank you.

10 MR. DOMIESEN: The quarter for
11 the small cap grouping, Eagle really is a
12 defensive manager. And you may recall that
13 they had underperformed in the blue market,
14 particularly 2013. And the market was up
15 43 percent. They were up 36. So you see
16 that on the three year number where they
17 are lagging. They include the 2013 and are
18 up 12 percent. The benchmark was up 12.9.

19 More recently in the down market
20 year to date and even on the one year,
21 they've outperformed. And for the quarter,
22 they were down 11 percent versus 13 percent
23 for their benchmark. That's what our
24 expectations would be for them being a

1 defensive manager. Vaughan Nelson recently
2 reviewed them, and we can see the longer
3 term numbers are quite strong relative to
4 the benchmarks.

5 When you look at the one year,
6 they were up 5.2 percent, and their
7 benchmark was down 1.6 percent. The value
8 added in the combined small cap has been
9 coming in a large extent over the last one
10 year from Vaughan Nelson. So those are the
11 major categories. We reviewed the major
12 categories.

13 Again, the total performance
14 down 5.7, and the benchmark down 5.4
15 percent for the quarter ended
16 September 30th. There is a lot more detail
17 here, but I can review with you what
18 happened in October if that would be
19 helpful.

20 MR. DIFUSCO: Yeah.

21 MR. DOMIESEN: With that, there
22 is an additional handout outside of the
23 packet. I think it was stapled. We'll go
24 over that. I'll show you on page 3, total

1 performance for the month of October was up
2 4.8 percent. We're looking at the October
3 column, bottom of the page 3. It was up
4 4.8 percent versus the benchmark at 4.9.

5 When you look back over the year
6 to date one and three year time periods, we
7 see that the total had out performed the
8 target index on these. And these the
9 net-a-fees. I can go into the different
10 categories, if you'd like, on the fixed
11 income right above there on page 3. The
12 group, overall, the combined fixed income
13 was flat, and the benchmark was also flat.

14 MS. WINKLER: For the
15 international equities at the top of the
16 page, for the -- it was up 7.4 percent, and
17 the benchmark overall was 7.4. There was a
18 comeback in terms of performance for the
19 month by Harding Loevner, the large cap
20 growth manager.

21 GFA, the emerging market
22 manager, lagged for the month of October.
23 But when we look back over the one year and
24 three year numbers, they protected versus

1 their benchmarks, not damaged much. On the
2 prior page, which is page 2, the top of the
3 page we have the equities large cap.
4 Combined large cap was up 7.8. And the
5 benchmark for that group was 8.1. Part of
6 that, again, Cooke & Bieler, the moneys
7 moved towards the end of the month. The
8 small cap -- finally, the small cap, in
9 October, in a strong bull market we did see
10 the two defensive managers lag, Eagle and
11 Vaughan Nelson. And that ended up plus 4.3
12 versus a target of 5.6 percent for October.

13 Again, looking at the year to
14 date in a down market, we experience small
15 cap. They were favorable to the benchmark
16 by an amount of 3.8 percentage points.

17 So page 4 --

18 MR. JONES: Before we go away
19 from these return numbers, when I looked at
20 the September report, I looked at the total
21 fund performance for five years. And it
22 was 765. That's a number that's kind of
23 important around here. So, then, when I
24 got the October report, I looked at it

1 again -- again, the five year number, and
2 the five year number had jumped 39 basis
3 points to 804.

4 I noticed that the three year
5 number went from 741 in September to a
6 return of 9.36 in October. And I thought
7 that seemed --

8 MR. DOMIESEN: We're moving
9 forward a month. We're dropping off --

10 MR. JONES: That October month a
11 few years ago, three and five years ago,
12 must have been horrible.

13 MR. DEVERS: October 2010 was, I
14 believe, down eight or ten percent that
15 month, if memory serves me correctly. It
16 was a very significant down month in 2010.

17 MR. JONES: Because it wasn't
18 only our performance. I saw the benchmarks
19 moved too.

20 MR. DEVERS: That just rolled
21 off. It was a very strong, negative month.

22 MR. JONES: And I guess my point
23 is, we have that bogey of 765.

24 MS. WINKLER: That's 765 for the

1 next 30 years?

2 MR. DEVERS: Of course.

3 MR. JONES: Yeah. And I
4 guess --

5 MS. WINKLER: Every year.

6 MR. JONES: This portfolio, the
7 way it is -- the way it's comprised right
8 now, at times we can meet 765, and other
9 times, we're below it. And other times
10 we're above it. It's like I don't know
11 that I would go chasing a bogey. If you
12 think that 765 is the number, let's stick
13 with it, and let's work towards that
14 instead of moving it around. So I guess
15 that's my point here, that sometimes we do
16 hit 765.

17 MR. BUTKOVITZ: Yeah. But the
18 assessment is that we're going to be
19 falling further and further behind by as
20 much as two and a half percent a year.

21 MS. WINKLER: Charlie, the point
22 I think that you were making is that in
23 this enormous bull market that we were in,
24 which we now dropped off, with an

1 unprecedented bull market now that you
2 dropped off the bad part, we don't expect
3 it to be an ongoing unprecedented bull
4 market. What we're concerned about is what
5 would be the reasonable place to be when we
6 no longer -- we shouldn't expect and we
7 shouldn't manage our future finances and
8 plans around an unprecedented bull market
9 of the last five years.

10 MR. BUTKOVITZ: When Donald
11 Trump becomes president, we'll --

12 MS. WINKLER: You can vote for
13 him. Go right ahead.

14 MR. MAZZA: We have to adapt.
15 We have to adapt.

16 MS. WINKLER: I just like to
17 read the jokes.

18 MR. BUTKOVITZ: The market and
19 him are both up today.

20 MS. WINKLER: Is he up today?

21 MR. MAZZA: We have to adapt.
22 We know that the market is not going to be
23 like it has been over the last 15 years.
24 Even with the recession of 2008, it's not

1 going to be the same. We have to adapt.
2 We have to think about changing our asset
3 allocation and entering different spaces to
4 chase that total return.

5 Anyone in their -- PA could have
6 made 13 to 20 percent over the past five
7 years. People put their money in Apple or
8 put their money in Google, and tech stocks
9 took off. That's not going to be the same
10 way things are going to be going over the
11 next five, ten years as you guys know.

12 MR. GILBERT: Any other
13 questions for Frank?

14 Do we have a motion to accept
15 the September 30th report?

16 MS. WINKLER: So moved.

17 MR. BUTKOVITZ: Second.

18 MR. GILBERT: Any questions on
19 the motion? All in favor?

20 MS. WINKLER: Aye.

21 MR. GILBERT: Motion carries.
22 Is there going to be a recommendation on a
23 motion to put out the RPF index funds for
24 international equities? Matt asked that

1 question.

2 MR. DIFUSCO: It's a good idea.
3 Just because we put out an RFP doesn't mean
4 we're ultimately bound to use it. I think
5 he gives us the option of flexibility if we
6 decide -- or I should say the commissioners
7 decide.

8 MR. BUTKOVITZ: I'll make the
9 motion.

10 MS. WINKLER: Second.

11 MR. GILBERT: Any questions on
12 the motion?

13 All those in favor?

14 MR. BUTKOVITZ: Aye.

15 MS. WINKLER: Aye.

16 MR. GILBERT: Motion carries.

17 MS. WINKLER: I voted. I
18 second. And I intentionally didn't vote on
19 other things.

20 MR. GILBERT: Break the tie.

21 MR. DIFUSCO: You voted a couple
22 times.

23 MR. GILBERT: Now, the changing
24 of the index fund, the 765, are we going to

1 do that another time?

2 MR. BUTKOVITZ: Why don't we
3 lower it to seven while we don't have a
4 mayor. It's too painful to do it when we
5 do.

6 MR. GILBERT: Nope.

7 MR. BUTKOVITZ: No takers?

8 MR. GILBERT: No action. Okay.

9 MR. BUTKOVITZ: I vote that we
10 lower it to seven.

11 MR. GILBERT: Is there a second?

12 MR. BUTKOVITZ: You can vote.

13 MR. GILBERT: I understand.
14 I'll second. Okay.

15 MR. BUTKOVITZ: You seconded it?

16 MR. GILBERT: Yes. Any
17 questions on the motion?

18 MS. WINKLER: You're seconding
19 going from 7.65 to 7.0?

20 MR. GILBERT: That's correct.

21 MS. WINKLER: First of all, I
22 like -- now, I believe if everybody
23 understands, so that we all understand,
24 we -- however this is decided, we have an

1 opinion from the law department that says
2 it's the finance director who sets the
3 target return. Is that correct? That is
4 my understanding.

5 MR. BUTKOVITZ: Then it doesn't
6 matter if we approve it.

7 MS. WINKLER: That was my
8 understanding of the -- we did some work
9 with the law department over what the
10 duties were of the finance director.

11 MR. DIFUSCO: That's my
12 recollection. Putting the levity aside
13 just for a moment too, I do think the
14 commission, given that we're talking about
15 changing asset allocations, we have
16 consultant presentations that if we're
17 going to have discussion about lowering the
18 assumption rate, my recommendation would be
19 that that should be part of that.

20 MS. WINKLER: I agree with that.

21 MR. BUTKOVITZ: But the
22 testimony -- but the testimony of the
23 consultant is the best that we can hope
24 for, is 7 percent. We might have five

1 percent. In light of that expert opinion,
2 how do we justify a -- essentially an
3 unsubstantiated optimistic rate?

4 MR. MAZZA: With all due
5 respect, we don't know if Gallagher is
6 going to be the consultant going forward.
7 I would recommend that we wait until we
8 find out who's going to be our investment
9 consultant at the January meeting to
10 determine what the rate should be.

11 MR. DIFUSCO: Part of the option
12 too may be that, at the current structure
13 that we have, the 6535, a 765 is
14 unrealistic, but that if we made other
15 smaller tweaks to the investment lineup,
16 then perhaps 73 becomes unrealistic --

17 MS. WINKLER: I'd also like,
18 frankly, to have a conversation with PGW to
19 talk about if we have a long term strategic
20 plan to lower the investment return on the
21 portfolio, that the affect of that under a
22 series of other changes that we have
23 enacted regarding the way in which we would
24 be measuring the annual contribution that

1 PGW will make, does have a budgetary impact
2 on PGW.

3 From my perspective, I think the
4 deliberative approach where we both look at
5 the risks, the likely returns, and then
6 maybe a phase in over time the way the
7 large fund has faced in over time, lower
8 return assumptions, I would feel more
9 comfortable if you would take the time to,
10 you know, at least consider that.

11 I appreciate and respect and
12 generally find myself in the camp of lower
13 returns, so for me, it's not about where
14 we're headed. It's just about the process
15 of getting there, how we get there, how we
16 do it in a way that maintains the PGW --
17 you know, ask PGW to find the money, give
18 them some time to find the money. I also
19 think we also just need to make sure we
20 understand what our actual impact --

21 MR. BUTKOVITZ: What would be
22 the additional contribution at 7 percent?

23 MS. WINKLER: Do you know, Dan?

24 MR. LEONARD: I wouldn't know

1 that it would significantly drop. I
2 suspect it would be maybe in the magnitude
3 of anywhere from two to five million
4 dollars in additional expense. I mean,
5 that's just without looking.

6 MS. WINKLER: I thought it would
7 be --

8 MR. BUTKOVITZ: How much do you
9 think it would be, Charlie?

10 MR. LEONARD: I would have to go
11 back and check.

12 MR. JONES: I can't say for
13 sure. It's -- there are already putting
14 away \$22 to \$23 million. I would say if
15 they -- if we lowered the rate 10 percent,
16 which is I think what you're asking, that
17 would probably jump up \$25 to \$26 million.

18 MR. BUTKOVITZ: Same as what we
19 said.

20 MS. WINKLER: That is the same.
21 Okay. That's not -- you're right. Maybe
22 what we would like to hear back from PGW is
23 why can't you afford that.

24 MR. BUTKOVITZ: The problem is

1 this is the best decision -- this is the
2 best time to make the decision because it's
3 in the interregal.

4 ATTENDEE: If it's going to be
5 underfunded, it seems like it should be
6 getting ahead of it now. If this is an
7 unrealistic number, we kick it down the
8 road, the amount --

9 MR. MAZZA: I would assume if
10 the finances are right. And I don't know.
11 The director would have to make this
12 directive.

13 MS. WERNER: There is certainly
14 a large responsibility invested in the
15 finance director. Generally, they have the
16 approval of any proposed changes in the
17 retirement plans schedule. I don't have a
18 record of us addressing the specific
19 issues. But we're obviously happy to do
20 that.

21 MS. WINKLER: I believe it was
22 addressed.

23 MR. GILBERT: Withdraw the
24 motion. Do you want to amend it to have

1 further study and then make the decision?

2 MR. BUTKOVITZ: No. What do you
3 think?

4 MR. HORNSTEIN: I'm risk reverse
5 in this situation.

6 MR. BUTKOVITZ: What does that
7 mean?

8 MR. HORNSTEIN: I think what
9 Nancy is saying is it makes more sense if
10 you need to see where the next set of
11 consultants says.

12 MR. BUTKOVITZ: What will
13 happen? It will be played against
14 budgetary concerns, and the pressure will
15 be on the commission not based on fiduciary
16 responsibilities but based on -- don't you
17 understand that this means we're going to
18 have less money for pre-k?

19 MS. WINKLER: This has nothing
20 to do with kindergarten.

21 MR. BUTKOVITZ: When I arrived
22 here, Mayor Street was the mayor. I made
23 the first motion to lower it from 9 percent
24 return to 8.75. And he said, if you do

1 that, I'm going to layoff X number of
2 people. He made the kind of argument that
3 we're not supposed to be receptive to.
4 We're supposed to be responding to the
5 basis of fiduciary responsibility. The
6 debate that just occurred was a fiduciary
7 argument. Now, the counterargument that's
8 being made is -- that's pretty audacious.
9 May be she should let other factors come
10 into this, such as -- and two five million
11 dollar expenditures, why?

12 I mean, we have this kind of
13 pressure. The numbers are so big that we
14 can't -- if you've got a two to five
15 million dollar cost and you're taking
16 responsibility -- I just came back from
17 pension conference. The consensus was the
18 same. Return should be about six percent.
19 We're way out of line.

20 Even though going from 7.6 to 7
21 is a lot, it's nowhere near where we should
22 be. And people will always blink based on
23 the pressure of do you know how much this
24 is going to cost us today. But what is the

1 alternative?

2 MR. LEONARD: My concern is what
3 impact it would have on debt services.
4 Five million dollars of additional
5 expenses, we have to take that into
6 consideration.

7 MR. BUTKOVITZ: If we make 5
8 percent next year instead of 7.65 percent,
9 what will that affect be on our
10 contribution rate? That's what we're
11 dealing. We're dealing with trying to
12 estimate what the reality of this next year
13 will be. We're going to pay for it one way
14 or the other; right? So doesn't it make
15 sense to make a down payment on it and pay
16 part of it, and therefore, the risk that
17 it's hanging out there is less
18 overwhelming.

19 MR. DIFUSCO: I don't think
20 anyone -- I don't -- I don't disagree with
21 your larger point. I just think that most
22 people in this room probably agree with the
23 larger point. My only concern is doing it
24 in the absence of the additional

1 information, the absence of what the asset
2 allocations are going to look like. I
3 think it's certainly an item that should be
4 discussed.

5 MR. BUTKOVITZ: It's also true
6 that the commission can raise the rate at
7 the next meeting if it is an overreach.
8 The commission continues to have that
9 power. I'll tell you what, I bet if we
10 lower it to 7 percent today we will have a
11 substantial influx of information very
12 quickly.

13 MR. DIFUSCO: There is also
14 the --

15 MR. BUTKOVITZ: Rob will come to
16 the meeting.

17 MR. DIFUSCO: -- there is also
18 the very open question which Nancy raised,
19 which is what my recollection of what the
20 opinion that we were provided by the law,
21 and the explanation is that the finance
22 director is charged, among other things,
23 with setting the discount rate and not the
24 commission. So I'm just --

1 MR. BUTKOVITZ: That may ensure
2 that issue as well. Instead of it being
3 theoretical, they will get a full
4 resolution of it. I'd say the overriding
5 thing to me is the two to five million
6 dollar exposure is not a sufficient
7 intimidating factor to hold off on this. I
8 think the city can afford the two to five
9 million --

10 MS. WINKLER: This is PGW's
11 money?

12 MR. BUTKOVITZ: Yeah.

13 MR. GILBERT: Any additional
14 discussion? All those favor?

15 MR. BUTKOVITZ: Aye.

16 MS. WINKLER: Aye.

17 MR. GILBERT: Motion carries.

18 Debt service fiscal year 2016,
19 Charles Jones.

20 MR. JONES: I'm still making
21 notes on that last motion. When would that
22 be affective folks; do we know?

23 MR. MAZZA: Immediately I would
24 assume.

1 MS. WINKLER: It would be for
2 the --

3 MR. JONES: The way we did it
4 last time, the Commission lowered it to 765
5 affective the next fiscal year for PGW,
6 September 1st of 2015. Is that a
7 consideration here? Because -- because
8 back then the consideration was what's the
9 impact on PGW --

10 MS. WINKLER: When does your
11 next rate case go in?

12 MR. LEONARD: The next rate case
13 will go in effect fiscal year 2018, which
14 would be September 3, 2017. We have to
15 file nine months prior to that. It would
16 be filing approximately January of 2017.
17 That's when we expect to file for our next
18 rate increase.

19 MR. BUTKOVITZ: Given the two
20 and a half percent gap between now and then
21 and all the pressures that are going to be
22 brought to bear upon us immediately after
23 this meeting anyway, I'd like to see it
24 take effect immediately. That's my

1 opinion. If we're going to do it, do it.

2 MR. GILBERT: You're saying
3 immediately?

4 MS. WINKLER: Yeah. So does
5 that mean that we would go to actuary have
6 them recalculate --

7 MR. LEONARD: I would say we
8 have to so we could identify what our
9 contribution would be, the PGW contribution
10 made on assumed discount 7.65 percent as
11 opposed to 7.6 percent. If it's affective
12 immediately, our contribution would surely
13 change.

14 MR. GILBERT: Okay.

15 MR. JONES: That must have been
16 the shortest lived discount rate we ever
17 had, 765 for about 90 days.

18 MS. WINKLER: What?

19 MR. JONES: It became affective
20 9/1/15.

21 MR. BUTKOVITZ: I'm prepared to
22 go to six and a half.

23 MR. GILBERT: Say it again.

24 MR. JONES: Yeah.

1 MS. WERNER: About confirming a
2 prior opinion on this, we're happy to look
3 at it, and we'll update you through our
4 list of what changes.

5 MS. WINKLER: Thank you.

6 MR. GILBERT: Any other
7 questions? So the rate is affective
8 immediately.

9 MR. MAZZA: Yeah.

10 MR. GILBERT: That's payment for
11 fiscal year 2016.

12 MR. JONES: Commissioners, I
13 supplied you with a one-page document.
14 This is just to inform you that the Sinking
15 Fund is making payments is responsible for
16 making payments of \$971 million for fiscal
17 year '16. This includes all the bond
18 deals, all the re-fundings and new issues
19 that have been completed through
20 November 16 of this year.

21 So the commission is on the hook
22 to make these -- is responsible for
23 ensuring that these payments are made.
24 This -- if we exclude the effect of the

1 tran on this calculation, debt services
2 have gone down \$7.5 million from last year
3 and \$87 million from the year before that.

4 So Matt Mazza will be making --
5 is responsible for making these payments as
6 they come due.

7 MS. WINKLER: Can you give me
8 those number again?

9 MR. JONES: Sure. Excluding the
10 tran, because of the volatile nature of the
11 amount of the tran, I explained it, fiscal
12 year '16 versus fiscal year '15, it's down
13 \$7.5 million and versus fiscal year '14,
14 it's down \$87 million.

15 MS. WINKLER: Okay. We should
16 probably take a look at that by payment
17 too. That's just total -- the general fund
18 paid that column, the tran and pension
19 funds, are paid out of the general fund.
20 The rest is paid out of the enterprise
21 revenues.

22 MR. JONES: Right. So I just
23 wanted to inform you. I think it's my duty
24 to inform you as to the amount of payments

1 the Sinking Fund is responsible for.

2 MR. GILBERT: Any questions for
3 Charlie?

4 MS. WINKLER: Is this the
5 budgeted? Are these the budgeted payments
6 for this year?

7 MR. JONES: No.

8 MS. WINKLER: Okay. What else?

9 MR. GILBERT: Other topics, the
10 reworking of the Sinking Funds statements,
11 who's going to do that?

12 MR. JONES: I'll work the
13 accounting to get that done.

14 MR. MAZZA: I will work with
15 Charles.

16 MS. WINKLER: Maybe I could
17 review it before it comes back.

18 MR. MAZZA: Sure. I apologize
19 to the commissioners for the statements,
20 the way they are. We will improve them;
21 that's my promise.

22 Other items, I just wanted to
23 give you folks a sheet. This is our due
24 diligence travel report for the investor

1 consultant search that we bring candidates
2 to the meeting in January. Chris and I
3 visited a number of investment consultants,
4 about six in total, if I'm correct. Or we
5 visited Rhumblin, which is our index
6 manager in Boston. We visited five -- we
7 told the commissioner that we were going to
8 spend a total of \$1,500 on travel. We came
9 underbudget at \$1,400 and change.

10 And we found that the meetings,
11 especially doing due diligence with a
12 number of these consultants, including
13 Gallagher, was very informative. And like
14 I brought up earlier in the meeting, we've
15 come to the conclusion with a number of
16 these candidates that, our current asset
17 allocation, that we would have not reached
18 the 765 discount rate at our current asset
19 allocation. We'd have to change that.

20 But over all, I was a skeptic at
21 the beginning about due diligence visits.
22 Now I'm in favor of them. I think we
23 learned a lot about the folks and meeting
24 the different teams that will be coming to

1 the table in January, including Gallagher,
2 which has an impressive team as well.

3 MR. GILBERT: Okay.

4 MR. MAZZA: I would also like to
5 mention this is Charlie Jones last Sinking
6 Fund Commission meeting. He is retiring
7 December 18th. I want to personally thank
8 him for his service to the Sinking Fund
9 Commission and to the City of Philadelphia.
10 Thank you for your time here.

11 MS. WINKLER: Thank you,
12 Charlie.

13 MR. GILBERT: Thank you,
14 Charlie.

15 MS. WINKLER: Have a great
16 retirement.

17 MR. MAZZA: Have a great rest of
18 your life.

19 MR. GILBERT: We need a motion
20 to adopt the schedule for next year. We're
21 going to move to bimonthly meetings, first
22 one being January 13th, March 9, May 11,
23 July 13, September 14, and November 9th.

24 MR. BUTKOVITZ: So moved.

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 65

1 MS. WINKLER: Second.

2 MR. GILBERT: Any questions on
3 the motion? All in favor?

4 MS. WINKLER: Aye.

5 MR. BUTKOVITZ: Aye.

6 MR. GILBERT: Any additional
7 business? Any additional business? We are
8 adjourned. The next meeting is
9 January 13th.

10 - - - - -

11 (Whereupon, the meeting was
12 adjourned at 12:05 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 in the
foregoing matter, and that this is a
correct transcript of the same.

Court Reporter - Notary Public

(The foregoing certification of
this transcript does not apply to any
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unless under the direct control and/or
supervision of the certifying reporter.)

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 1

A	affective 57:22 58:5 59:11,19 60:7 afford 51:23 57:8 aggregate 18:17 29:16 31:17 ago 18:20 42:11,11 agree 48:20 55:22 ahead 44:13 52:6 Al 20:18 21:12 Al's 20:19 Alan 2:5 24:17 Alger 37:2,13 allocation 15:17 16:9 17:2,3 21:20,23 22:15 23:10 23:12 25:4 25:15 28:17 30:15 34:21 45:3 63:17 63:19 allocations 24:24 48:15 56:2 Alternate 2:6 alternative 55:1 alternatives 22:14 23:1 23:13 Altman 2:21 amend 52:24 amount 19:14 41:16 52:8 61:11,24 analyzes 24:4 and/or 3:6 66:21 annual 49:24 answer 4:12 anticipated 10:10 Anymore	26:14 anyway 58:23 apologize 3:15 62:18 apparently 4:3 APPEARA... 2:1 Apple 45:7 apply 66:19 appreciate 36:12 50:11 approach 50:4 approval 15:1 52:16 approve 36:11 48:6 approving 4:18 approximat... 1:17 29:12 58:16 area 8:17 22:10 argument 12:9 54:2,7 arrived 53:21 articles 15:22 articulate 35:5 aside 27:10 48:12 asked 6:11 45:24 asking 22:2 51:16 aspect 16:22 assessment 43:18 asset 15:16 17:2,3 21:20 22:15 23:10,11 24:23 25:3 25:14 27:4 45:2 48:15 56:1 63:16 63:18 assets 6:18 Assistant 2:10 ASSOCIA...	1:21 assume 52:9 57:24 assumed 59:10 assumption 48:18 assumptions 23:7,18 25:16 26:3 26:4,12 50:8 assurance 24:5 ATTENDEE 38:3,5 52:4 attractive 17:18 audacious 54:8 August 6:19 avenue 24:7 aware 20:5 Aye 5:9,10,23 5:24 45:20 46:14,15 57:15,16 65:4,5	B back 10:20 12:17 16:16 17:16,19 18:21 19:5 19:6 28:17 40:5,23 51:11,22 54:16 58:8 62:17 background 6:9,12 bad 7:21 26:18 44:2 bar 8:3 Barclays 29:16,18 Barksdale 29:19 bars 8:4 based 9:4 11:10 14:21 14:22 15:9 15:17 23:6 24:12 25:3	25:5,15 53:15,16 54:22 basing 33:8 basis 13:22 14:3 17:14 18:16 29:12 35:9,12,16 42:2 54:5 bear 58:22 beating 15:20 beginning 26:12 63:21 believe 42:14 47:22 52:21 benchmark 29:10,20 31:18 32:6 32:7,13 33:20 35:24 36:4,6 37:4 37:5 38:18 38:23 39:7 39:14 40:4 40:13,17 41:5,15 benchmarks 32:22 39:4 41:1 42:18 benefit 16:6 21:2,6 27:10 benefited 7:2 Benjamin 2:4 best 29:5 48:23 52:1 52:2 bet 56:9 better 8:23 22:16 34:23 bias 8:22 Bieler 37:14 37:17,18 41:6 big 54:13 bigger 13:18 billion 10:19 bimonthly 64:21 Black 18:8 blended 36:14,16,19 blink 54:22	blue 8:4 38:13 board 7:7 11:20 30:13 bogey 22:9,16 23:5 42:23 43:11 bond 10:4,4 17:9 18:22 60:17 bonds 23:2,2 23:14 30:5 30:20,23 Boston 63:6 bottom 9:24 15:19 29:7 40:3 bound 46:4 Break 46:20 briefly 6:15 bring 16:9 63:1 bringing 16:12 24:6 34:14 broad 11:23 29:17 brought 58:22 63:14 bubble 10:11 budgetary 50:1 53:14 budgeted 62:5,5 BUILDING 1:22 bulk 35:18 bull 13:6 41:9 43:23 44:1 44:3,8 bunch 19:22 Bush 19:20 business 65:7 65:7 Butkovitz 2:5 3:11 4:24 5:6,10,20 5:24 9:1,7 10:9 11:21 12:5,15,20 13:3 14:9 15:21 16:13 17:8 22:3	24:18 25:10 25:20 26:17 26:21 30:9 33:8,11 43:17 44:10 44:18 45:17 46:8,14 47:2,7,9,12 47:15 48:5 48:21 50:21 51:8,18,24 53:2,6,12 53:21 55:7 56:5,15 57:1,12,15 58:19 59:21 64:24 65:5	C C 3:1 66:2,2 calculation 61:1 calendar 25:2 34:7,7 camp 50:12 candidates 21:17 63:1 63:16 cap 36:22,23 38:11 39:8 40:19 41:3 41:4,8,8,15 capital 25:15 26:2,4,7 capitals 11:3 carries 3:16 6:1 45:21 46:16 57:17 case 58:11,12 cash 15:24 16:5 18:6 19:4 20:5 20:22 21:4 21:6,9,10 27:10,24 28:4,10 29:1,24 30:3 38:6 categories 39:11,12 40:10 category 37:9 cause 1:13 caused 34:17	Center 1:16 certain 9:9 23:13 certainly 12:8 12:23 13:7 14:6,12 52:13 56:3 certification 66:18 certify 66:4 certifying 66:22 Chairman 2:4 challenging 6:18 7:8 change 15:16 21:1 59:13 63:9,19 changed 7:13 changes 21:21 49:22 52:16 60:4 changing 45:2 46:23 48:15 charged 56:22 Charles 2:9 57:19 62:15 Charlie 43:21 51:9 62:3 64:5,12,14 chart 8:2 9:24 chase 14:23 45:4 chasing 43:11 check 51:11 Chief 2:11 China 10:15 11:5,11 Chinese 10:11,12 11:3 13:1 Chris 14:13 63:2 Christopher 2:11 Circle 20:4 29:18,20 circulated 3:4 3:18
----------	--	---	---	--	--	--	---	--	--

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 2

city 1:1 2:15 2:21 3:24 57:8 64:9 classes 27:5 clearly 4:8 close 25:10 28:22 32:22 37:23 closely 15:8 closer 36:5 colleague 6:6 Colman 2:15 column 29:7 29:9 40:3 61:18 combined 39:8 40:12 41:4 come 10:20 25:8,11 26:7 29:13 54:9 56:15 61:6 comeback 40:18 comes 16:16 62:17 comfortable 50:9 coming 11:2 21:14 32:22 34:12,22 39:9 63:24 commencing 1:17 comment 3:21 9:21 29:24 comments 9:4 9:14 37:10 commission 1:2,12 2:3 48:14 53:15 56:6,8,24 58:4 60:21 64:6,9 commissioner 2:5 63:7 commission... 14:20 36:8 46:6 60:12 62:19 commodity	6:23 Commonwe... 1:15 companies 13:19 14:4 completed 60:19 completely 26:10 complicated 22:22 component 31:19 composite 33:24 compositions 24:2 comprised 43:7 concern 55:2 55:23 concerned 44:4 concerns 4:6 53:14 conclusion 12:16 63:15 conference 1:16 54:17 confidence 24:6 confirming 60:1 conjunction 21:1 consensus 12:21,24 18:11 54:17 conservative 37:8 consider 32:23 36:14 50:10 consideration 24:7 55:6 58:7,8 consultant 21:17 48:16 48:23 49:6 49:9 63:1 consultants 53:11 63:3 63:12	consumer 8:19,23 consumption 12:17 contained 66:6 continue 3:22 4:6 11:7 21:19 continued 6:23 8:9 10:5 continues 56:8 continuing 9:20 contracted 34:16 contribution 28:2 49:24 50:22 55:10 59:9,9,12 contributions 27:21 control 66:21 Controller 2:16 controls 9:15 conversation 49:18 conversations 11:10 14:13 Cooke 37:14 37:16,18 41:6 core 7:6 corporate 30:23 correct 9:13 14:2 25:17 31:8 33:7 33:16,17 38:8 47:20 48:3 63:4 66:9 corrections 3:6 correctly 42:15 correlated 13:15 cost 54:15,24	counterarg... 54:7 counting 18:13 countries 34:20 country 34:21 couple 46:21 course 18:24 43:2 Court 1:14 1:19,21 66:13 cover 36:19 crazy 23:3 27:13 credit 30:5,6 30:15 31:9 creeped 32:14 currency 10:23 11:8 11:15 12:11 current 9:18 17:4 23:10 24:12,13 25:3,6,14 49:12 63:16 63:18 currently 11:18 17:11 curve 17:14 17:16 18:18 cut 12:16 D D 3:1 damaged 41:1 Dan 2:19 50:23 date 1:17 32:10 38:20 40:6 41:14 day 32:20 33:1 36:18 days 59:17 de-risk 14:14 dealing 55:11 55:11 deals 60:18 debate 54:6 debt 55:3	57:18 61:1 December 17:6,13,20 18:13,16 64:7 decide 46:6,7 decided 47:24 decision 34:10 52:1 52:2 53:1 decisions 22:23 decline 13:21 13:23 17:9 defacto 10:22 12:13 defaults 30:11,19 defense 31:24 defensive 20:21 37:8 38:12 39:1 41:10 definitely 20:15 degrees 10:13 delay 17:23 deliberative 22:20 50:4 demand 12:6 demands 31:1 demonstrat... 7:16 14:7 demonstrat... 8:22 dented 6:24 department 2:15,21 4:16 48:1,9 detail 27:2 28:8 39:16 determine 49:10 detractor 30:16 devalue 11:18 developed 32:4 Devers 2:14 6:5,17 9:3 9:11 10:12 11:23 12:8	12:19,22 13:7 14:12 17:10 19:23 26:14 28:6 30:12,19 31:8 33:18 34:6,12,19 35:13 38:7 42:13,20 43:2 different 24:1 40:9 45:3 63:24 difficult 25:8 DiFusco 2:11 20:12,18 21:10 24:8 24:19 28:11 28:15 31:10 31:14 33:22 35:4,18 39:20 46:2 46:21 48:11 49:11 55:19 56:13,17 diligence 62:24 63:11 63:21 direct 66:21 directive 52:12 directly 21:3 21:17 director 2:9 4:2 48:2,10 52:11,15 56:22 disagree 55:20 discount 56:23 59:10 59:16 63:18 discuss 4:21 discussed 56:4 discussion 13:4 48:17 57:14 distribution 27:4 document 60:13 doing 8:23	20:20,24 55:23 63:11 dollar 10:17 11:3,16 17:17 54:11 54:15 57:6 dollars 16:17 51:4 55:4 domestic 12:12 27:5 27:11 28:18 DOMIESEN 6:4 7:22 9:23 16:4 25:18 26:22 28:7,16 30:17,22 31:4,16 33:7,13,17 34:1,22 36:13,17 37:20 38:4 38:10 39:21 42:8 Donald 44:10 Dow 16:15 downside 34:23 35:2 downturn 15:6 27:20 drag 33:23 driven 6:20 drop 10:6 12:10 51:1 dropped 43:24 44:2 dropping 42:9 drops 16:14 drove 9:10,11 31:1 drugs 9:9 Dubow 2:6 due 29:22 33:23 49:4 61:6 62:23 63:11,21 duration 18:22,24 19:9 20:7 22:11 duties 48:10 duty 61:23	E E 3:1,1 66:2 Eagle 38:11 41:10 earlier 37:10 63:14 early 19:23 earnings 13:20,22,23 13:23 14:3 19:3 economic 7:14 economies 7:1 economy 11:13,19 12:12 13:2 13:11 17:21 effect 18:23 19:2 58:13 58:24 60:24 effected 19:11 27:21 eight 16:16 42:14 either 4:4 5:1 11:12 18:12 37:23 election 18:1 19:15,18 20:1 elements 32:9 email 3:5 emerging 6:22,24 32:12,15 36:1 40:21 enacted 49:23 ended 39:15 41:11 energy 8:9 enormous 43:23 ensure 57:1 ensuring 60:23 entering 45:3 enterprise 61:20 environment 7:8 17:1 equities 7:17
--	---	---	--	--	--	---	--

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 3

16:8 21:23 22:4 27:12 28:18 36:10 40:15 41:3 45:24 equity 7:12 10:16 13:12 13:16 14:5 14:10,15 15:4,15 16:23 27:5 29:2 especially 15:5 19:12 20:6 22:10 63:11 essentially 10:21 11:13 49:2 estimate 55:12 evaluation 9:18 evaluations 7:16 everybody 47:22 evidence 66:5 exactly 20:13 24:20 30:10 exceeds 9:18 exclude 60:24 Excluding 61:9 Excuse 36:13 executive 2:9 4:2 expect 17:8 44:2,6 58:17 expectation 9:20 expectations 9:14 38:24 expected 24:12 expenditures 54:11 expense 51:4 expenses 55:5 expensive 14:1 experience	41:14 expert 49:1 explained 61:11 explanation 56:21 exposure 22:4 22:5,8,14 30:6 32:4 32:12 36:1 36:2 57:6 extended 6:21 extent 39:9 extra 27:24 <hr/> F F 66:2 faced 11:12 50:7 fact 26:3 factor 57:7 factors 54:9 fairly 22:22 28:22 fall 16:2 falling 8:10 15:7 43:19 far 15:19 Fargo 2:20 favor 3:13 5:8 5:22 30:23 45:19 46:13 57:14 63:22 65:3 favorable 10:1 37:3 41:15 FAX 1:24 fears 6:21 February 33:16 Fed 17:12,23 18:12,15 19:17,21 fee 33:23 35:8 35:9,11,15 feed 23:4 feeds 14:23 feel 50:8 fees 15:7 36:5 fiduciary 2:13,14 53:15 54:5	54:6 figures 9:5 file 58:15,17 filing 58:16 finally 41:8 finance 48:2 48:10 52:15 56:21 finances 44:7 52:10 find 49:8 50:12,17,18 fine 36:16 firm 18:8 first 1:22 8:13 13:21 47:21 53:23 64:21 fiscal 11:14 12:12 27:16 27:16 57:18 58:5,13 60:11,16 61:11,12,13 five 18:12 19:10,13 20:7,17 22:12 33:19 33:20 41:21 42:1,2,11 44:9 45:6 45:11 48:24 51:3 54:10 54:14 55:4 57:5,8 63:6 fives 25:22,24 fixed 7:3,7 14:16 16:23 17:3 19:8 20:3,14,23 22:5,6,8,11 23:12 28:21 29:14 31:17 40:10,12 flat 8:20 18:19 40:13 40:13 fleeting 11:3 fleet 9:22 flexibility 46:5 Floor 1:16,22 flow 17:19 fluctuations	7:18 focus 18:7 folks 20:5 25:12 57:22 62:23 63:23 foolish 15:16 foregoing 66:8,18 forward 22:17 42:9 49:6 found 63:10 four 18:12 19:13 29:15 Frank 2:13 6:3 7:10 21:13,16 26:15 45:13 frankly 49:18 Fred 37:1,13 full 57:3 fully 4:3 23:8 66:6 fund 1:2,11 3:17,19 4:2 4:15 5:12 27:23 33:18 35:14 41:21 46:24 50:7 60:15 61:17 61:19 62:1 64:6,8 fundamental 7:13 funded 23:8 funding 21:3 funds 23:2 31:21 36:3 45:23 61:19 62:10 further 23:17 43:19,19 53:1 future 11:9 44:7 <hr/> G G 3:1 Gallagher 2:13,14 49:5 63:13 64:1 gap 58:20 Garcia 20:4	30:4 GDP 13:12 general 1:19 61:17,19 generally 50:12 52:15 getting 15:5 24:1 35:22 50:15 52:6 GFA 40:21 Gilbert 2:4 3:3,12,16 5:2,7,11,19 5:21 6:1 45:12,18,21 46:11,16,20 46:23 47:6 47:8,11,13 47:16,20 52:23 57:13 57:17 59:2 59:14,23 60:6,10 62:2,9 64:3 64:13,19 65:2,6 give 22:15 50:17 61:7 62:23 given 7:16 9:19 10:16 23:20 24:2 48:14 58:19 gives 46:5 global 6:21 globe 7:1 go 14:20 15:8 17:5 29:3 39:23 40:9 41:18 43:11 44:13 51:10 58:11,13 59:5,22 goal 24:1,2 goes 13:24 16:16 28:8 going 7:18,20 9:15,16,21 10:15 11:18 12:10,16 13:1 15:2 15:23 16:1 17:5,13,15	17:19 19:11 19:13 20:8 21:15 22:16 23:9 25:14 26:9,11,22 30:20 43:18 44:22 45:1 45:9,10,10 45:22 46:24 47:19 48:17 49:6,6,8 52:4 53:17 54:1,20,24 55:13 56:2 58:21 59:1 62:11 63:7 64:21 Gomiesen 2:13 good 4:12 6:4 7:20 24:20 46:2 Google 45:8 gotten 13:5 15:19 government 30:7 great 19:12 64:15,17 greatly 36:11 green 8:3 grossed 35:14 group 40:12 41:5 grouping 38:11 grow 13:19 growth 6:21 9:17,20 13:12 14:3 32:1 36:15 36:18,20 37:2 40:20 guess 35:6,16 42:22 43:4 43:14 guys 26:11 36:11 45:11 <hr/> H half 28:10 43:20 58:20 59:22 Hamilton	20:4 handout 39:22 hanging 55:17 happen 26:9 53:13 happened 15:14 39:18 happy 52:19 60:2 hard 15:5 Harding 32:1 32:3,8 33:6 33:15 36:2 36:7 40:19 harvest 27:9 harvesting 16:7,8 28:24 headed 50:14 healthcare 8:12,15 9:2 9:3 37:10 37:11 hear 22:21 24:21 51:22 heard 29:23 Hearing 3:8 5:15 heart 16:15 hedge 23:1 held 1:12,15 11:24 12:13 helpful 39:19 hey 26:8 hide 16:19 high 7:3,5 9:20 21:22 23:2,14 25:16 30:12 30:14 higher 8:15 8:18,22 13:15,17 14:5 17:17 28:1 30:6,8 31:9 highest 25:12 highly 17:10 19:16 hire 34:10 hiring 36:7	hit 15:5,19 20:9 23:5,9 23:10 43:16 hitting 22:16 hold 10:22 11:24 57:7 holding 11:15 holdings 11:8 17:4,9 hook 60:21 hope 48:23 Hornstein 2:16 53:4,8 horrible 42:12 How's 21:8 hurt 9:16 30:2 32:15 37:6 <hr/> I idea 46:2 identify 59:8 immediately 57:23 58:22 58:24 59:3 59:12 60:8 impact 10:10 19:5 50:1 50:20 55:3 58:9 impacted 9:5 important 41:23 impressive 64:2 improve 62:20 in-mootable 23:20 include 28:4 38:17 includes 28:6 60:17 including 25:2 63:12 64:1 income 7:3,7 14:17 16:23 17:3 19:8 20:3,14,23 22:5,7,8,12 23:12 28:21 29:14 31:7
--	--	---	---	---	--	---	--

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 4

31:9,17 40:11,12 incorrect 22:2 increase 18:14 58:18 increases 9:9 increasing 20:22 index 14:21 14:21 15:9 29:17 35:20 35:23 36:3 36:3,9,15 36:19,23 40:8 45:23 46:24 63:5 indexed 36:6 indexing 32:23 individuals 11:11 influx 56:11 inform 60:14 61:23,24 information 56:1,11 informative 63:13 instinct 16:19 intentionally 46:18 interesting 10:14 11:4 18:4 international 14:19,22 15:4,15 17:18 28:19 31:23 32:7 32:18 36:10 40:15 45:24 interregal 52:3 interrupt 24:9 intimidating 57:7 invested 21:9 52:14 investment 2:11 6:3 25:1 49:8	49:15,20 63:3 investor 7:19 30:24 62:24 investors 9:22 10:3 17:11 island 22:2 issue 15:22 31:20 57:2 issues 32:13 52:19 60:18 item 56:3 items 62:22 J Janet 2:20 January 49:9 58:16 63:2 64:1,22 65:9 Jeff 2:16 Jo 2:21 joined 6:5 jokes 44:17 Jones 2:9 16:15 28:14 35:11 41:18 42:10,17,22 43:3,6 51:12 57:19 57:20 58:3 59:15,19,24 60:12 61:9 61:22 62:7 62:12 64:5 judgment 4:5 July 64:23 jump 51:17 jumped 42:2 justify 49:2 K keep 18:24 keeping 19:9 kick 52:7 kind 16:19 41:22 54:2 54:12 kindergarten 53:20 kinds 24:4 know 16:18 19:4,14,17	20:8 22:8 23:18 26:1 26:7,11 43:10 44:22 45:11 49:5 50:10,17,23 50:24 52:10 54:23 57:22 known 17:5 L labeled 3:23 4:8 lag 41:10 lagged 40:22 lagging 38:17 large 36:23 39:9 40:19 41:3,4 50:7 52:14 larger 21:6 55:21,23 late 6:19 launching 11:14 law 2:15,21 48:1,9 56:20 layoff 54:1 Lazard 30:4 30:4 31:3 leading 20:1 learned 63:23 left 8:1 29:8 Leonard 2:19 50:24 51:10 55:2 58:12 59:7 let's 43:12,13 level 29:24 30:3 levity 48:12 life 64:18 light 49:1 line 16:10 29:7 54:19 lines 21:5 lineup 49:15 liquid 11:7 list 60:4 little 11:6 14:15 19:1 27:24 lived 59:16	Loevner 32:1 32:3,8 33:6 33:15 36:2 36:7 40:19 Logan 20:3 29:18,20 long 13:13 49:19 longer 33:3 33:12 37:2 39:2 44:6 look 6:8 7:24 8:1,8,19 17:17 36:22 36:22 37:4 39:5 40:5 40:23 50:4 56:2 60:2 61:16 looked 29:10 41:19,20,24 looking 10:3 13:9 14:14 18:10,16 21:21 26:24 40:2 41:13 51:5 lose 15:23 loss 26:19 lot 9:12 12:22 13:4 15:23 20:4 24:21 29:22 33:1 33:5 39:16 54:21 63:23 low 25:22,24 lower 8:1,2,3 17:1,3 22:7 24:14 30:15 47:3,10 49:20 50:7 50:12 53:23 56:10 lowered 51:15 58:4 lowering 23:11,17 48:17 M magnitude 51:2 maintains 50:16	major 27:4 39:11,11 majority 22:11 37:22 making 21:21 35:10 43:22 57:20 60:15 60:16 61:4 61:5 manage 44:7 management 14:22 manager 32:2 36:10 38:12 39:1 40:20 40:22 63:6 managers 7:5 15:4,7 17:4 18:6 19:8 20:3,24 22:12 29:15 30:4 31:24 37:1 41:10 manner 3:23 March 17:7 17:22 64:22 market 6:8 6:12,24 7:8 7:17 9:17 9:19 10:5 10:12 11:4 11:23 12:2 12:23 13:6 13:12,16,22 16:1 18:11 21:11,11 25:15 26:3 26:4,8,10 26:15 29:17 32:15 38:13 38:14,19 40:21 41:9 41:14 43:23 44:1,4,8,18 44:22 markets 6:22 7:12,21 9:6 10:16 14:5 15:15,18,20 16:23,24 27:20 32:5 32:12,18 36:1	Marvin 2:14 6:5,9,11 Marvin's 6:6 materials 12:7,17 Matt 14:13 45:24 61:4 Matt's 20:12 20:23 matter 48:6 66:8 Matthew 2:10 maturation 13:5 maturities 30:2 maximum 13:5 mayor 47:4 53:22,22 Mazza 2:10 14:18 15:13 16:21 19:7 20:2,14 22:6,24 25:1,7,12 25:22 26:1 26:20 27:17 27:19 28:5 28:9 33:10 35:20,24 36:16 44:14 44:21 49:4 52:9 57:23 60:9 61:4 62:14,18 64:4,17 mean 4:4 15:22 23:1 24:9 30:9 46:3 51:4 53:7 54:12 59:5 means 36:4 53:17 66:20 measured 29:16 32:6 measuring 49:24 meet 43:8 meeting 1:4 1:11 3:4 4:1	4:20 18:15 21:13 24:10 24:23 49:9 56:7,16 58:23 63:2 63:14,23 64:6 65:8 65:11 meetings 18:5 63:10 64:21 MEMBERS 2:3 memory 42:15 mention 64:5 mentioned 1:13 27:8 29:23 met 25:2 midpoint 25:21,23 million 27:17 28:10 51:3 51:14,17 54:10,15 55:4 57:5,9 60:16 61:2 61:3,13,14 mines 37:11 minutes 3:3,7 3:9,15 model 29:2 models 24:13 moment 18:20 27:3 48:13 Mondrian 31:24 32:5 monetary 10:23 12:13 12:14 money 14:23 15:6 17:18 19:1 21:11 21:11 38:1 45:7,8 50:17,18 53:18 57:11 moneys 41:6 month 10:20 16:5 32:16 37:24 38:2 40:1,19,22	41:7 42:9 42:10,15,16 42:21 monthly 16:12 29:1 months 21:5 58:15 morning 6:4 28:12 motion 3:9,13 3:16 5:2,5,8 5:16,18,22 6:1 45:14 45:19,21,23 46:9,12,16 47:17 52:24 53:23 57:17 57:21 64:19 65:3 mouth 16:15 move 3:11 7:9 13:17 17:12 17:15,20,22 17:24 18:17 64:21 moved 37:12 37:21 38:1 41:7 42:19 45:16 64:24 moves 14:5 18:12 19:22 moving 16:5 35:22 42:8 43:14 mutual 35:13 N N 3:1 66:2 Nancy 2:6 53:9 56:18 nature 61:10 near 54:21 necessarily 23:19 need 23:9,23 50:19 53:10 64:19 needs 29:1 negative 42:21 Nelson 39:1 39:10 41:11 net 35:7,14 35:14
--	--	--	---	---	--	---	---

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 5

net-a-fee 35:6	32:16 37:12	14:23	11:15	42:18	political 9:5	10:4 30:20	36:9,18
net-a-fees	37:15,21,22	overweighted	pegged 10:17	performed	17:24 18:2	31:1	45:7,8,23
33:1,5 34:2	38:3 39:18	16:11 37:9	10:22	32:17 40:7	portfolio	pricing 17:11	46:3
40:9	40:1,2,22	overweighti...	pending	period 6:18	15:11 24:2	30:21	putting 21:4
never 4:12	41:9,12,24	27:7	13:10	34:13,23	26:16 27:1	primarily	21:23 48:12
26:1,11	42:6,10,13	overwhelmi...	Penn 1:16	periods 40:6	27:15 31:3	36:24	51:13
new 4:2 7:14	office 4:15	55:18	Pennsylvania	personally	43:6 49:21	prior 34:6	
60:18	18:4		1:15,18,23	15:13 64:7	portfolios	36:21 41:2	Q
news 7:14	Officer 2:11	P	pension 5:12	perspective	18:22	58:15 60:2	quality 7:3,5
NEWTOWN	offset 7:2	P 3:1	5:16 6:2	50:3	position	proactively	8:15,19,23
1:23	Okay 13:3	p.m 65:12	27:22 54:17	PFM 18:8	10:18 20:22	21:1	30:8
nine 58:15	26:21,22	PA 45:5	61:18	PGW 2:19	21:7 26:19	probabilities	quarter 6:15
nonpayments	27:18 47:8	packet 3:18	pensioners	5:12,16 6:2	positioning	26:5	6:17,22
30:11	47:14 51:21	5:13 39:23	27:23	49:18 50:1	34:20	probability	7:15 8:5,6
Nope 47:6	59:14 61:15	pact 14:10	people 4:22	50:2,16,17	positions	17:12 23:24	8:11,13,20
Northern	62:8 64:3	page 7:24,24	9:7,13	51:22 58:5	14:11	probably	10:2,6
36:24	once 26:2	26:23 28:8	12:23 22:21	58:9 59:9	positive 8:20	35:4,11	13:21 29:7
Notary 1:14	one-page	28:17 29:3	26:7 45:7	PGW's 57:10	possibility	51:17 55:22	29:8,19
66:13	60:13	29:4,5,6	54:2,22	PGWPP 2:12	24:11	61:16	30:2 31:18
noted 20:3	ongoing 44:3	31:23 36:21	55:22	ph 10:21	possible	problem 19:7	37:6,19
66:5	open 12:1	36:21 39:24	percent 8:6,7	37:16	23:21 24:7	51:24	38:8,10,21
notes 57:21	56:18	40:3,11,16	8:12,13,21	pharmaceu...	24:23	proceedings	39:15
66:7	opinion 19:16	41:2,2,3,17	9:8 10:2	9:6	possibly 17:6	66:5	quarterly 1:4
notice 1:12	48:1 49:1	paid 61:18,19	17:12 22:7	phase 50:6	potential	process 15:3	3:17
7:4	56:20 59:1	61:20	22:9,10,13	Philadelphia	10:10 11:1	50:14	quarters 34:7
noticed 42:4	60:2	painful 47:4	22:14 27:6	1:1 64:9	19:4	Professional	question
November	opposed 10:4	panel 31:23	27:7 28:18	pieces 32:21	potentially	1:14	13:18 22:2
1:8 60:20	36:15 59:11	part 24:9	28:20,21,22	place 44:5	10:14	profile 23:24	35:5 46:1
64:23	opposite	31:19 32:24	29:9,11	plan 5:16 6:2	power 56:9	profit 9:16	56:18
number	26:10	41:5 44:2	30:14 31:18	29:7 49:20	pre-k 53:18	profits 27:9	questions 3:5
18:11 27:1	optimistic	48:19 49:11	32:12 33:19	plans 44:8	predomina...	projections	3:12,20 5:7
32:11 35:6	25:21 49:3	55:16	33:21 36:2	52:17	6:20 9:4	26:8	5:14,21
37:5 38:16	option 23:16	particular	37:5 38:15	platform 15:9	prepared	promise	20:19 24:19
41:22 42:1	23:16 24:14	4:9 8:9	38:18,22,22	play 10:15	59:21	62:21	24:20 26:14
42:2,5	46:5 49:11	particularly	39:6,7,15	12:9	present 2:8	propose 4:14	45:13,18
43:12 52:7	organized	38:14	40:2,4,16	played 53:13	2:18 21:15	14:19	46:11 47:17
54:1 61:8	4:10	partly 20:2	41:12 42:14	plus 7:6	presentations	proposed	60:7 62:2
63:3,12,15	outlook 10:11	passively	43:20 45:6	41:11	24:22 48:16	52:16	65:2
numbers 7:24	outperform...	16:2	48:24 49:1	point 9:23	presented	protected	quickly 56:12
31:11 37:3	29:20 38:21	patience	50:22 51:15	13:5 16:14	18:9	40:24	quite 15:8
39:3 40:24	outside 10:15	16:22	53:23 54:18	18:17,20	president	protection	39:3
41:19 54:13	39:22	pay 55:13,15	55:8,8	21:18 24:21	44:11	34:24 35:3	
	overall 28:16	paying 27:22	56:10 58:20	33:14 35:6	pressure 8:10	provided	R
O	30:16 31:20	payment 16:6	59:10,11	42:22 43:15	11:9 53:14	56:20	R 3:1 66:2
O 3:1 66:2	32:4 40:12	55:15 60:10	percentage	43:21 55:21	54:13,23	Public 1:14	raise 4:6
O'Shannessy	40:17	61:16	23:13 41:16	55:23	pressures	66:13	17:13 56:6
37:16	overevaluat...	payments	perform 8:17	points 7:23	58:21	purchase	raised 4:7
objecting 9:8	9:19	16:6 21:2,3	performance	17:15 20:18	pretty 16:10	10:21	56:18
obviously	overreach	21:6 27:11	7:6 8:2 10:8	29:12 35:9	18:7 30:10	pursuant	range 19:10
20:21 52:19	56:7	60:15,16,23	29:4 31:20	35:12,17	54:8	1:12,18	20:8 22:13
occurred 54:6	overriding	61:5,24	34:13,16	41:16 42:3	price 8:10 9:8	put 11:11	35:12
October 6:14	57:4	62:5	39:13 40:1	policy 10:24	13:23	14:21 27:10	rate 17:1 28:1
6:16 7:9,15	overturn	PE 13:24	40:18 41:21	12:14	prices 6:24	27:23 32:21	48:18 49:3
8:6 10:7,7		peg 10:22					49:10 51:15

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 6

55:10 56:6 56:23 58:11 58:12,18 59:16 60:7 63:18 rates 11:2 17:5,13,17 19:15 rational 34:4 raw 12:6,17 re-fundings 60:18 reached 63:17 read 44:17 reading 4:22 15:22 reality 55:12 reallocation 15:11 really 16:17 19:1 22:21 23:23 38:11 REAR 1:22 reasonable 44:5 rebound 32:17 recalculate 59:6 recall 38:12 receptive 54:3 recession 13:10 44:24 recollection 48:12 56:19 recommend 32:23 49:7 recommend... 34:11 45:22 48:18 recommend... 34:4 35:22 record 33:9 52:18 records 34:14 recovery 7:11 reduce 15:12 reelected 19:20 regarding 49:23	regulation 9:15 relationship 13:14 relative 39:3 remember 18:21 19:21 remembered 35:2 removed 35:15 replacing 37:16 report 6:14 7:4,10 41:20,24 45:15 62:24 reporter 1:14 66:13,22 REPORTE... 1:21 reports 4:21 6:13 represent 8:4 represents 8:3 reproduction 66:20 repurchase 12:3 reserves 11:7 11:24 residual 37:24 38:6 resolution 57:4 respect 8:18 49:5 50:11 responding 54:4 responsibili... 53:16 responsibility 52:14 54:5 54:16 responsible 60:15,22 61:5 62:1 rest 61:20 64:17 result 7:19 30:21 retirement	52:17 64:16 retiring 64:6 retreat 15:24 return 23:5 23:17 24:6 24:12 25:13 41:19 42:6 45:4 48:3 49:20 50:8 53:24 54:18 returns 30:16 50:5,13 revenues 61:21 reverse 53:4 review 39:17 62:17 reviewed 39:2 39:11 reviewing 32:19 revising 4:21 reworking 62:10 RFP 46:3 Rhumblin 36:24 63:5 rid 35:22 right 8:3 10:16 15:17 17:2 20:6 20:13 23:11 23:15 29:3 29:3,14 31:5,7,22 35:3 40:11 43:7 44:13 51:21 52:10 55:14 61:22 rise 11:1 17:6 19:12 risen 17:6 rises 19:14 rising 17:1 risk 6:18 7:2 14:15 15:12 23:23 30:7 30:21,24,24 53:4 55:16 risks 50:5 road 52:8 Rob 56:15 Rock 18:8	rolled 42:20 room 1:16 13:17 32:20 55:22 Rosenberger 2:21 rough 34:15 round 18:5 RPF 14:21 36:9 45:23 Rules 1:19 run 33:3 <hr/> S s 3:1 31:16 save 14:23 15:6 saved 36:5 saw 42:18 saying 27:9 53:9 59:2 says 48:1 53:11 scenario 11:12,17 schedule 52:17 64:20 search 63:1 second 5:6,19 5:20 29:8 45:17 46:10 46:18 47:11 47:14 65:1 seconded 47:15 seconding 47:18 sector 8:1,15 sectors 8:8 securities 30:15 see 7:11,20 8:11 9:21 9:22,24 12:23 14:3 14:5,24 16:14 20:11 21:12 24:11 24:22 29:18 33:2 38:15 39:2 40:7 41:9 53:10 58:23 seeing 13:20	14:8 seen 24:4 segment 10:4 segments 9:17 selection 34:20 sell 11:7 12:1 30:22 selling 9:12 10:18 11:22 12:2 send 31:11,14 sense 14:10 53:9 55:15 sensitive 7:18 sentiment 7:19 September 3:10,19 5:13,17 6:13,20 26:23 39:16 41:20 42:5 45:15 58:6 58:14 64:23 Serena 1:13 series 49:22 serves 42:15 service 57:18 64:8 services 55:3 61:1 set 53:10 sets 48:2 setting 56:23 seven 47:3,10 severely 19:11 shape 18:17 shaped 7:11 share 7:23 sheet 62:23 shifting 18:18 short 13:14 17:14 18:6 18:23 19:1 30:1 Shorter 30:1 shortest 59:16 shot 22:16 show 28:1	37:20,22 39:24 shown 13:13 shows 27:1 29:6 side 7:7 21:5 37:2,17 significant 19:14 42:16 significantly 7:12 51:1 signs 13:10 similarly 36:4 Sinking 1:2 1:11 3:17 3:19 4:2,15 60:14 62:1 62:10 64:5 64:8 sit 4:15 16:2 sitting 20:4 situation 53:5 six 54:18 59:22 63:4 six-month 15:2 sixs 25:16 skeptic 63:20 slight 28:19 slightly 16:10 29:19 slow 12:6 small 36:22 38:11 39:8 41:8,8,14 smaller 49:15 sold 6:19 8:9 solely 25:2 SOP 8:5 sorry 11:5 33:4 37:13 source 18:2 SOUTH 1:22 space 9:12,16 14:19,22 18:6 spaces 21:24 45:3 specific 52:18 spend 63:8 spoken 32:2 Spotts 1:13 spreads 30:13	staff 16:5,7 20:24 23:19 27:8 28:24 32:2,19 stages 13:8 14:6 stand 26:12 stapled 39:23 staples 8:19 8:23 37:7 start 4:1 23:23 29:6 29:14 State 1:18,22 statement 4:5 5:3,12,17 statements 3:17,20 4:9 5:11,14 62:10,19 stay 14:10 stays 17:21 stenographic 66:7 stick 43:12 stimulus 11:14,19 12:12,13 stock 34:19 stocks 13:24 45:8 story 7:13 strategic 49:19 strategies 14:14,16 32:24 strategy 32:1 Street 1:22 53:22 STREHLOW 1:21 strength 12:4 13:12 strengtheni... 11:2 strong 7:11 34:13,13 39:3 41:9 42:21 stronger 7:6 17:17 structure	21:2 49:12 study 53:1 substantial 56:11 sufficient 57:6 suggest 4:20 13:16 suggestions 21:15 supervision 66:22 supplied 60:13 support 11:19 12:10 12:11 13:2 supporting 11:13,14 supposed 54:3,4 sure 23:4,7 50:19 51:13 61:9 62:18 surely 59:12 suspect 51:2 <hr/> T T 66:2,2 table 5:3 14:15 64:1 tabled 5:12 take 14:15 27:9,11 50:9 55:5 58:24 61:16 taken 66:7 takers 47:7 talk 4:16 6:15 49:19 talked 16:4 28:24 talking 15:10 16:7 20:16 20:23 23:3 24:17 48:14 tampered 6:23 target 16:11 27:6 28:20 28:20,22,23 40:8 41:12 48:3 team 64:2
--	---	--	--	--	---	---	--

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 7

teams 63:24	26:18,18	37:15	underperfo...	33:19 37:5	39:23 44:11	34:9,17	26:13 27:15
tech 45:8	35:1 42:6	traumatic	29:11 30:8	38:22 40:4	60:3	35:1,21	27:16 32:10
tell 56:9	51:6	30:10	underperfo...	40:24 41:12	we're 4:17	37:18 38:9	32:11 33:9
ten 9:8 42:14	thoughtful	travel 62:24	35:7,19	61:12,13	13:7,20	40:14 42:24	37:4 38:16
45:11	22:20	63:8	underperfo...	viable 24:14	14:6,8	43:5,21	38:20,20
tend 30:1,17	thousand 9:8	treasurer	29:21 32:9	VIDEOGR...	15:23 16:6	44:12,16,20	39:5,10
tends 17:23	three 13:9	2:10 3:24	33:21 37:11	1:21	16:7,7	45:16,20	40:5,6,23
term 13:14	16:13 19:10	treasurer's	38:13	view 12:21	20:20,21	46:10,15,17	40:24 41:13
18:6 37:2	20:7,17	4:14	underperfo...	viewed 9:13	21:3 23:2,9	47:18,21	42:1,2,4
39:3 49:19	21:5 22:12	treasurers	35:16	18:1	25:13 26:24	48:7,20	43:5,20
terms 13:13	27:7 37:4	18:4	understand	visited 63:3,5	27:9,22	49:17 50:23	55:8,12
20:20 23:4	38:16 40:6	treasuries	3:24 4:3,8	63:6	32:21 40:2	51:6,20	57:18 58:5
23:6 24:23	40:24 42:4	10:20 11:22	4:17,23	visits 63:21	42:8,9 43:9	52:21 53:19	58:13 60:11
25:13 40:18	42:11	12:1 30:7	47:13,23	volatile 16:20	43:10,18	57:10,16	60:17,20
testimony	tie 13:11	30:24	50:20 53:17	61:10	44:4 46:4	58:1,10	61:2,3,12
48:22,22	46:20	treasury 11:8	understand...	volatility 7:20	48:14,16	59:4,18	61:12,13
thank 6:2	tied 10:23	trillion 11:6	48:4,8	14:7	50:14 52:19	60:5 61:7	62:6 64:20
28:15 38:9	tilt 30:5	true 56:5	understands	vote 4:24	53:17 54:3	61:15 62:4	years 13:9
60:5 64:7	time 19:21	Trump 44:11	47:23	44:12 46:18	54:4,19	62:8,16	33:19,20
64:10,11,13	34:23 40:6	Trust 36:24	underweigh...	47:9,12	55:10,11,13	64:11,15	34:7,15
theoretical	47:1 50:6,7	trying 55:11	28:19 37:7	voted 46:17	59:1 60:2	65:1,4	41:21 42:11
57:3	50:9,18	turn 12:2	unpreceden...	46:21	64:20	Withdraw	42:11 43:1
thing 10:14	52:2 58:4	tweaks 49:15	44:1,3,8	voting 4:18	we've 15:19	52:23	44:9,23
21:12 23:8	64:10	two 1:16 6:13	unrealistic	4:19	16:21 21:4	wong 10:21	45:7,11
57:5	times 16:14	16:13 20:18	49:14,16	vulnerability	24:3 32:2	12:3,4	yelled 30:14
things 20:20	43:8,9,9	21:5 28:9	52:7	20:15	63:14	work 6:6	yield 10:3
21:24 29:23	46:22	29:15,22	unsubstanti...	vulnerable	weak 6:23	43:13 48:8	18:18 23:2
45:10 46:19	today 6:5,7	30:3 32:21	49:3	20:11	Wednesday	62:12,14	23:14 30:12
56:22	44:19,20	32:24 34:7	up-to-date		1:8	worked 27:8	31:2
think 10:13	54:24 56:10	34:15 41:10	31:11	W	week 16:14	worried	yields 10:5
12:24 15:13	told 4:11 63:7	43:20 51:3	update 6:16	wait 49:7	18:9	16:24	
16:21 18:19	top 31:22	54:10,14	60:3	waiting 16:11	weightings	wouldn't	Z
19:13 20:19	40:15 41:2	57:5,8	upside 19:3	want 4:6	28:23	18:19 50:24	
21:12 22:1	topics 62:9	58:19	use 46:4	13:11 23:4	Wells 2:20	wrong 26:6	0
22:6 23:16	total 18:17	type 9:21	utilities 10:1	24:5 36:14	18:8	WWW.ST...	
23:19,22	25:13 26:24			52:24 64:7	went 7:14	1:23	1
24:9,21	39:13,24	U	V	wanted 14:19	42:5		1 31:18
25:11,11	40:7 41:20	U.S 10:17,19	V 7:11	14:24 61:23	Werner 2:20	X	1,400 63:9
26:9 29:4	45:4 61:17	10:23 11:1	valuation	62:22	52:13 60:1	X 54:1	1,500 63:8
32:19 34:8	63:4,8	11:2,16,22	27:2	wants 26:3	widen 30:13		1.1 31:19
37:24 39:23	touch 6:12	12:14 13:11	value 4:5,22	wasn't 42:17	Winkler 2:6	Y	33:21
43:12,22	7:10 10:6	13:12,19,21	13:24 15:23	watch 16:2	3:14,21 5:4	Yeah 20:12	1.6 39:7
45:2 46:4	26:23	13:22 17:20	16:2 27:14	way 3:4 4:10	5:9,18,23	31:13 33:10	10 22:13
48:13 50:3	track 17:22	Uh-huh 38:5	31:24 32:5	4:11 14:24	15:10 18:3	39:20 43:3	51:15
50:19 51:9	33:9 34:14	ultimately	32:7 33:2,5	23:22 43:7	19:19,24	43:17 57:12	100 18:16
51:16 53:3	trail 36:4	46:4	36:18,20	43:7 45:10	20:10,16	59:4,24	22:7 35:9
53:8 55:19	trailing 8:14	unchangea...	37:17 39:7	49:23 50:6	21:8 22:18	60:9	11 8:13 38:22
55:21 56:3	32:10 35:8	23:21	varying	50:16 54:19	23:15 24:16	year 8:4,14	64:22
57:8 61:23	tran 61:1,10	uncomforta...	10:13	55:13 58:3	25:5,23	8:21 17:24	11:00 1:17
63:22	61:11,18	4:18	Vaughan	62:20	27:13,18	18:1,12	115 35:9
third 6:15,17	transcript	underbudget	39:1,10	we'll 6:15	28:3 31:2,6	19:10,15,15	117,000 27:3
7:15 13:20	66:9,19	63:9	41:11	10:6 25:11	31:13 33:4	19:18,24	12 29:5 36:21
thought	transitioned	underfunded	versus 16:11	27:2 31:11	33:15 34:3	20:8 22:13	38:18
		52:5	28:20 33:14	31:14 38:7		23:8 26:6	12.9 38:18

Sinking Fund Commission - Quarterly Meeting
November 18, 2015

Page 8

12:05 65:12	3	7					
13 28:19 29:5	3 7:24 11:6	7 48:24 50:22					
29:6 32:12	39:24 40:3	54:20 56:10					
36:2 38:22	40:11 58:14	7.0 47:19					
45:6 64:23	3.35 33:14	7.1 8:21					
13.6 37:6	3.7 33:19	7.4 40:16,17					
13th 64:22	3.8 41:16	7.5 61:2,13					
65:9	30 3:19 5:13	7.6 54:20					
14 27:16	5:17 6:13	59:11					
61:13 64:23	35:16 43:1	7.65 47:19					
14.6 37:5	300 10:19	55:8 59:10					
15 22:13	30th 26:23	7.8 41:4					
28:20 44:23	39:16 45:15	70 17:11					
61:12	34 28:21	71 33:14					
150 10:19	35 22:9 28:22	73 49:16					
16 60:17,20	29:12	741 42:5					
61:12	36 38:15	765 22:16					
16th 1:16	39 42:2	23:6,9 25:4					
17.4 8:12		41:22 42:23					
18 1:8	4	42:24 43:8					
18940 1:23	4 41:17	43:12,16					
18th 64:7	4.3 30:14	46:24 49:13					
1st 58:6	41:11	58:4 59:17					
	4.8 40:2,4	63:18					
2	4.83 33:20						
2 41:2	4.9 40:4	8					
20 22:10	43 38:15	8.1 41:5					
27:15 28:8	478 28:3	8.4 8:7					
35:16 45:6	478,9 27:3	8.75 53:24					
200 16:14	492.7 28:13	804 42:3					
2008 44:24	28:14	85 35:12					
2010 42:13	492.9 28:13	87 61:3,14					
42:16	493 28:12						
2013 33:16	5	9					
34:8 38:14	5 55:7	9 26:23 28:17					
38:17	5.2 39:6	53:23 64:22					
2015 1:8 3:19	5.4 10:2	9.36 42:6					
5:13,17	29:11 39:14	9/1/15 59:20					
58:6	5.6 41:12	90 35:12					
2016 18:16	5.7 29:9	59:17					
57:18 60:11	39:14	90s 19:23					
2017 58:14	50 27:6	971 60:16					
58:16	504-4622	9th 3:10					
2018 58:13	1:24	64:23					
2035 23:8	504-7155						
215 1:24,24	1:24						
22 51:14	514 27:17						
23 51:14	53 27:6 28:18						
23rd 38:3							
25 17:14	6						
22:10 51:17	6.4 8:6						
258 1:22	6535 49:13						
26 51:17							