

Sinking Fund Commission In Re: May Meeting
May 10, 2017

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

In Re: May Meeting

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Wednesday, May 10, 2017

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This Meeting of the Sinking Fund Commission,
held pursuant to notice in the above mentioned
cause, before Angela M. King, RPR, Court Reporter
- Notary Public there being present, held at Two
Penn Center, 16th Floor Conference Room on the
above date, commencing at approximately 10:15
a.m., pursuant to the State of Pennsylvania
General Court Rules

- - -

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Page 2

1 A P P E A R A N C E S

2

3 COMMISSION MEMBERS:

4 Rasheia Johnson, Treasurer - Acting Chair

5 Bill Rubin

6

7 ALSO PRESENT:

8 Christopher R. DiFusco, CIO, PGW

9 Alex Goldsmith, PFM Asset Management

10 Marc Ammaturo, PFM Asset Management

11 Representatives from City Solicitor

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2 MS. JOHNSON: Good morning.

3 We would like to call the meeting to
4 order in absence of our Chairman. And approval
5 of the Minutes from the March 15.

6 MR. RUBIN: Motion to approve.

7 MS. JOHNSON: I guess I should second
8 that.

9 MR. RUBIN: All in favor?

10 (Ayes.)

11 MS. JOHNSON: Now we move to three,
12 which is Tab 2 in our book, the Large Cap Core
13 Finalist Presentations.

14 MR. DIFUSCO: So, you may recall that we
15 previously had these presentations scheduled for
16 March. There was some inclement weather, so we
17 bumped them til now. This is part of the overall
18 move towards the asset allocation which the
19 Commissioners approved several meetings ago.

20 The idea here would be, at PFM's
21 recommendation, would be to transition out of a
22 growth and value strategy set up at the large cap
23 space to a core strategy. This would necessitate
24 replacing O'Shaughnessy and Alger with one of the

1 three firms being brought in today. We would
2 allot them roughly 20 minutes each, you know,
3 give or take with some Q & A. I know Alex and
4 Marc have some comments.

5 Just by way of fees, Glenmede's proposed
6 fee schedule is on page 20 of their presentation.
7 Wellington's is on page 19. And Pinebridge, I
8 don't believe, put it in here. But I believe
9 it's the least expensive of the three. It's 25
10 basis points. Just as a reference point, Fred
11 Alger is charging us 65 basis points in their
12 strategy. And O'Shaughnessy is charging us
13 between 35 and 39 basis points depending on where
14 our assets -- assets are.

15 So with that, I know Alex and Marc had a
16 couple of comments they wanted to make before the
17 firm's came in.

18 MR. GOLDSMITH: Yeah, sure. The memos
19 that we have shown here, it's just the same memo
20 we had prior. It details our rationale for
21 moving towards a core approach for valued growth.
22 I think if we were to look at it, there were
23 turns if you had an equal value growth, you know,
24 allocation versus just a core. The returns are

1 very similar. It's the volatility, the standard
2 deviation of a single core fund is lower. You
3 know, the impact of a portfolio is one obviously
4 steadier return stream. When you have got
5 benefit payments coming out on a monthly basis, I
6 think the strategy like that is better suited for
7 that plan, you know.

8 And similarly, I think on the back of
9 that memo is just -- we point to the fact that
10 from year to year to year, yield focused
11 investments do well. Value, growth, large cap,
12 small -- all these different factors, there is
13 not one factor that leads with any regularity.
14 And we would prefer to, you know, see those
15 decisions to a manager, you know, one manager
16 coherence of style, opinion in the markets at any
17 one time rather than two disparate managers that
18 might counteract each other and increase
19 volatility of the portfolio.

20 There is also an opportunity to lower
21 fees. I think the -- we can get into our
22 recommendation afterwards. But I think the net
23 outcome of this would be lower fee overall for
24 the portfolio.

1 MR. AMMATURO: Just to piggyback off
2 that real briefly, to piggyback off of Chris'
3 comments, if you look at Fred Alger and
4 O'Shaughnessy, they manage about \$34 million
5 each. They do about \$68 million in aggregate,
6 which is about -- it's sizable portion of the
7 portfolio. It's 13 percent of overall portfolio.
8 It's a sizable portion of domestic large cap.

9 So something we can discuss at a later
10 meeting is if you do move forward with one of
11 these three managers, do they take -- I am
12 assuming they are going to take all of that as
13 Chris alluded to. But do they take even more --
14 let me take a step back. Do they take less than
15 the 13 percent so more can go to passive.

16 Again, to Alex' point, right now you
17 have 13 percent with active large cap. That
18 doesn't mean we need to give all 13 percent to
19 this winning presenter. They can get 10 percent
20 or 18 percent and the remainder in RFP would go
21 pass it, again, with the fee discussion we just
22 had.

23 Again, it is to replace your growth and
24 value manager. It doesn't mean this mandate

1 needs to go 100 percent to the winning bidder.
2 They can get 80 percent, 70 percent. And the
3 rest would go, in our opinion, should go passive.

4 MR. RUBIN: Are we going to have that
5 discussion before we decide how much to put in
6 into this manager, obviously, right? And then
7 the other discussion we are having is whether
8 large cap was the area that we should be going
9 into at all.

10 And so, do we have an opinion from you
11 guys about whether we should move into large cap?
12 Should we be looking to index more of our whole
13 portfolio? That discussion seems to be in line,
14 as well.

15 MR. GOLDSMITH: I think in terms of the
16 second question, indexing in terms of the
17 portfolio. You know, I think effective use of
18 indexing, is one area we've been moving toward
19 since we've been here about a year or so ago. We
20 are going to talk later on about international
21 passive management.

22 First part -- oh, the large cap/small
23 cap discussion. So another thing we did, the
24 total plan benchmark -- the planned benchmark for

1 equities is the Russell 3000 index, which is
2 about 90 percent large cap, 10 percent small cap
3 or so. Right now the plan is overweight to small
4 cap. That's reflective of, you know, our belief
5 that small caps will deliver more robust growth
6 over the intermediate turn. It reflects our
7 discretionary investment committee's position, we
8 have been overweight in small cap in our
9 discretionary accounts.

10 So, I think this necessarily isn't
11 adding more into small caps or taking some away
12 from small caps. This is a difference of moving
13 away from, again, a value growth to core. You
14 know, the question that I think a good one to ask
15 is active management in large cap the place to
16 be? I think sometimes conventional wisdom will
17 say that there is only 500 stocks in the S&P 500.
18 There is a lot in investment firms. These are
19 well-known stocks. Where is the informational
20 advantage. I think that's what we would like to
21 hear from them today.

22 We will focus on the intricacies of the
23 strategy they allow these funds to outperform net
24 of fees. That's the key that we are going to be

1 looking for is either regular or over a long
2 period of time outperformance net of the
3 management fees we are paying or that you would
4 or clients pay.

5 And we believe that we have vetted a
6 number of -- whether it's RFP. We have vetted a
7 number of managers. We have held calls with a
8 good majority of them. We also within our own,
9 PFM ongoing diligence, are aware of a number of
10 managers we would like in the large cap space.
11 So, I think our answer is that with the right
12 manager and the right fee structure, active large
13 cap can be added to your portfolio.

14 I think the question that Marc
15 introduced, and we'll probably address at the
16 next meeting, will be what amount of active
17 versus passive? I think there is certainly room
18 for some. Maybe it's, you know, an initial
19 allocation of say 10 percent or 7 percent with
20 the option to add more to rebalance the vehicle,
21 et cetera. So, we do believe there is space for
22 active large cap with the right fund.

23 MR. AMMATURO: With that being said, the
24 majority should be passive. It is today and

1 should remain majority passive. Hopefully, in
2 our opinion, it should remain. It's two-thirds
3 passive today. I look at the number as we speak.
4 I said 13 percent in active between Fred Alger
5 and O'Shaughnessy. There is 25 percent in
6 passive just within domestic large cap. So you
7 know, can that ratio increase even more and be
8 80/20 passive? Sure. We are not going to get in
9 the way of that.

10 But I think the first step is to decide
11 which one of these three managers can play that
12 role. And then decide, okay, they are going to
13 get some of Fred Alger and O'Shaughnessy's money,
14 but the rest should go passive. I think we can
15 decide that at a subsequent meeting.

16 MR. RUBIN: When we get to that
17 discussion, got to figure out based on our
18 funding level how much risk do we need to take to
19 be able to provide the benefits to that.

20 MR. DIFUSCO: Sure. And I think your
21 question, Bill -- I remember you brought it up, I
22 think, at the March or the January meeting --
23 it's a good one. It's one that I -- I think Alex
24 will tell you -- I asked him multiple times about

1 the, you know, benefits of being active at all in
2 large cap. So, I think your question is on
3 point. And I think to Marc's credit, you know,
4 he's right that if we have a sleeve of -- if we
5 were to choose or you were to choose, rather, one
6 of these managers, I think it is worth discussing
7 once they are selected, we get closer to
8 contracted funding, just how much of it should
9 be -- you know, how much of the slice that they
10 should get. And should we look at something more
11 like an 80/20, you know, passive.

12 So I -- we are -- I just -- we are all
13 on the same page --

14 MR. RUBIN: Okay.

15 MR. DIFUSCO: -- is what I'm trying to
16 say.

17 First one?

18 MR. GOLDSMITH: Just go in the order
19 here.

20 MR. DIFUSCO: Yeah.

21 (PineBridge presenters join the room.)

22 MR. GOLDSMITH: Similarly, I think get
23 to some diligence calls that we had on our end
24 with Chris as well, I think we would like to keep

1 this relatively short, you know, about 20 minutes
2 total. Maybe 15 minutes of presentations, a few
3 minutes for questions. Really the point of you
4 to focus on the elements of the strategy,
5 portfolio management, portfolio characteristics
6 and how that can lead to outperformance then of
7 fees. We are familiar with the organization, so
8 I think we can really gloss over that.

9 MR. ZILKO: Perfect. John Zilko. Hi,
10 everyone. Nice to meet you. I'm a Vice
11 President and client advisor here. Joining me
12 are Sheedsa Ali and Kate Faraday, both of whom
13 are Managing Directors and Co-Portfolio Managers
14 of the Research Enhanced Strategy. We will dive
15 right in.

16 If you wouldn't mind turning over to
17 page 2, I am assuming that everybody has the decs
18 we sent over.

19 MR. DIFUSCO: Thank you.

20 MR. ZILKO: On page 2, you will see an
21 overview of our firm. We will be pretty brief
22 here. This is going to show you what we are.
23 You'll see we're an \$80 billion global asset
24 management firm. A break down of our assets

1 across the board. But what we did want to talk a
2 little bit about is who we are behind the scenes.
3 If you were to ask anyone familiar with
4 PineBridge, I think the first thing they would
5 say is we are dynamic and growing firm which is
6 true. But we also take a tremendous amount of
7 pride in helping our clients both meet and exceed
8 their return objectives.

9 So, our culture is very unique I think
10 for an investment firm. Each and every one of us
11 across the firm is encouraged and empowered to
12 bring their ideas to the table, which is
13 incredibly important. And we also value
14 cohesiveness within our teams. So, I think that
15 Sheedsa and Kate here are a perfect example.
16 They have been working together for over ten
17 years. They have complemented skill sets which
18 will translate into portfolio returns for our
19 clients.

20 Our clients across the board are some of
21 the most sophisticated investors in the world.
22 Obviously, we would love to work with you folks
23 in Philadelphia. One thing we can tell you is as
24 we continue to evolve as a firm, we are going to

1 remain true to our three core values, which right
2 off the bat are investment excellence, client
3 service and collaboration. What we wanted to do
4 is just pause and see if there is any questions
5 on firm. We went through that pretty quick;
6 otherwise, we will move to strategy.

7 (No questions.)

8 MR. ZILKO: Great. If you turn over to
9 page 3, you will see an overview slide. If you
10 wouldn't mind taking out a pen maybe just
11 circling this. I think this is a good page to
12 review following our presentation if there is any
13 questions that you want to dive a bit deeper
14 into. We will go through most of this over the
15 next 15 minutes, but a couple things to touch on
16 at a high level.

17 Strategy objective right off the bat.
18 When we were reviewing the RFP that you folks put
19 out back in September I believe of last year,
20 first thing we noticed was you were looking for a
21 manager to outperform by about 80 to 100 basis
22 points. That is exactly what we have delivered
23 above and beyond the S&P since inception of the
24 strategy with a 1 percent risk budget. I think

1 we are a bit unique in a sense because we are
2 quantitatively driven, systematically applied.
3 And I think that's a bit different than some of
4 the other bottoms up stock. You will see what we
5 are looking to do is strip the human emotion out
6 of investing. We will look into that when we go
7 into process a little bit more, but pause there.

8 Also want to note performance
9 highlights. For us the name of the game is
10 consistency. We outperformed in nine of the past
11 ten calendar years. And we are consistently top
12 four tile relative to our peer group.

13 Turning over to 4, we want to do more
14 than tell you, we wanted to show you. If you
15 look, you will see a hypothetical illustration of
16 a hundred million dollars invested in our
17 strategy. Relatively straightforward, but the
18 one thing that we did want to note if you shift
19 your attention to the top right-hand corner is
20 that this is net of fees relative to an S&P 500
21 passive vehicle.

22 We have outperformed by \$25 million in
23 excess returns alone. So forget about the beta
24 of the market, just an outperformance 25 million.

1 And if you think about that on a hundred million
2 dollar investment, that's essentially a quarter
3 of your original investment on purely
4 outperformance.

5 Turning over to 5, the question then
6 that we get is how do you do it? And the process
7 itself is quantitative. I mention it's
8 incredibly complex. Sheedsa will touch on it a
9 bit. But we did want to leave you with a visual
10 to have in the back of your mind when we walk you
11 through that. On this page you may see six
12 companies you may be familiar with. Two on the
13 tech side, Sales Force and Facebook and four in
14 healthcare.

15 Now, what most of our peers will do is
16 they will do a top-down analysis. They will
17 decide they want to add healthcare to a
18 portfolio, and then they will run bottoms up and
19 decide the best company that they want to add.
20 We think of the world very differently. We
21 actually think that a fast growing healthcare
22 company should be compared to a fast growing tech
23 company rather than just its industry peers. And
24 why is that? Because what drives the performance

1 of a fast high-growth company and a mature
2 company are very different. And we will walk you
3 through that. But that's important to keep in
4 the back of your mind because life cycle
5 categorization is truly the engine that propels
6 our portfolio returns. And you will see that as
7 we walk you through a bit further.

8 But we will pause there and maybe hand
9 it over to Kate to talk some team and philosophy.

10 MS. FARADAY: Great. Thanks, John.

11 So, slide 6 represents a dedicated team.
12 But before we talk about that, just a quick high
13 level view of PineBridge Investments as a whole.
14 We have 200 investment professionals globally.
15 And that includes our multi-asset team, our fixed
16 income teams, our private and equities. Within
17 equities, we have approximately 50 investment
18 professionals that work with our team and for the
19 broader thought process and just global
20 collaboration. But the dedicated team, if we
21 were fortunate enough to work with you that
22 supports the strategy is depicted here on slide
23 6. And Slide 20 in the book will show you the
24 broader platforms should you have any questions.

1 But as John mentioned, Sheedsa and I
2 work together for ten years. Sheedsa's been with
3 the organization for twelve. We have this
4 dedicated team with two very distinct
5 responsibilities. Sheedsa heads up all the
6 quantitative equity efforts at Pinebridge and
7 runs the model, all the factors and the academic
8 work that go into this strategy. And I head up
9 implementation.

10 You will see we have five dedicated
11 analysts that work directly with us on this
12 effort. Three of which focus specifically on the
13 quantitative efforts underneath Sheedsa's
14 guidance, and two that work specifically with me
15 on the implementation and the day-to-day
16 management which includes the optimisation and
17 trading. While we do have these same
18 responsibilities, it's important to highlight
19 that we do cohesively work together, lots of
20 information sharing, daily monitoring and
21 reviewing. And we are involved in all aspects of
22 the process together with those distinct
23 responsibilities, as well.

24 And then finally, one of the benefits of

1 this strategy is that we do have an advisory
2 panel that consists of two of the most senior
3 individuals within our organization who are also
4 very seasoned veterans within the industry
5 themselves, both with over 30 years of
6 experience. So, Michael Kelly, who is the global
7 head of our multi-asset team as well Anik Sen who
8 is the global head of equities and with whom
9 Sheedsa and I report directly to.

10 And those individuals, what we do is we
11 have structured and unstructured meetings with
12 them. They really serve as a sounding board.
13 Sheedsa and the team will discuss the research
14 agenda. It's a thought leadership conversation
15 and a macro discussion. And again, on the
16 right-hand side, you will see specifically the
17 global and internal resources for the equity
18 platform and the strength with which we can
19 collaboratively work with them globally.

20 So, now we will turn your attention to
21 slide 7 to really kind of walk through how the
22 team applies the process. And John mentioned
23 this, but process is key for us. We methodically
24 and systematically apply for a strategy in the

1 three-step process you see in front of you.

2 The first step in the Life Cycle
3 Categorization approach, which is assigning each
4 company within our universe into one of the six
5 life cycle categories.

6 The second is the Stock Collection,
7 which is where we define the attractiveness of
8 the names within the categories.

9 And then finally, the Portfolio
10 Construction which occurs when we do our monthly
11 optimisations and trading. And this is a
12 repeatable and consistent approach and process
13 that has been in place since the inception of the
14 product in 2005. So now, let's set the stage for
15 how we do this.

16 Slide 8 shows our research framework and
17 our approach that's been in existence for over 16
18 years at Pinebridge Investments and our equity
19 team. And it's really how we look at the world.
20 And the importance of looking at companies, as
21 John mentioned, and how they should be analyzed
22 in the context of where they are within their
23 life cycle.

24 How do we do this?

1 You can see here on the S Chart we have
2 six categories. The first is Exceptional Growth.
3 The second is High Stable Growth. The third is
4 High Cyclical Growth. And then we have three
5 shade of Mature in Turnaround, Cyclical and
6 Defensive.

7 And how we define, we take a multitude
8 of factors, approximately 70 to 80, and we assign
9 different factors within each category. And
10 Sheedsa will get into that in a moment. And
11 that's -- it's really based on a collage of
12 growth rates and cyclical measures that we
13 deem important for each of these.

14 So now I will turn it to Sheedsa who
15 will walk you through the process and action and
16 how we really bring it to life.

17 MS. ALI: Thanks Kate.

18 So, we will go into some details about
19 the first two steps, especially categorization
20 and how we do the stock selection that helps us
21 tilt the portfolio towards names that we find
22 attractive and away from the names that we find
23 unattractive. And then we will get into more
24 portfolio construction of how we built that

1 portfolio while it's still keeping systematic
2 exposures close to the index.

3 So in terms of categorization, the few
4 key takeaways, on page 9 we show simplified
5 illustration of how we are doing the
6 categorization. The main ingredient here is
7 growth rates. We use a collage of different
8 growth rates, top line related, bottom line
9 related, forward looking, backward looking, long
10 term, short term and aggregate that into single
11 percentile for each stock. And then we have
12 cutoff points along that growth rate to further
13 categorize companies into one of six categories
14 life-cycle stages that Kate mentioned.

15 One example is companies growing above
16 median, that means percentile greater than 50
17 would be one of the higher growth. Companies
18 growing below median, less than 50, one of the --
19 would be one of the three mature companies --
20 mature categories.

21 And then we also have ways to
22 differentiate between cyclical and stable
23 companies. We look at, again, variety of
24 different measures to proxy cyclicity; namely,

1 volatility of growth rates. How variable is the
2 growth? How fast -- how different are the growth
3 over time to distinguish between cyclical
4 companies, that means they are achieving their
5 growth in a more cyclical manner than stable
6 companies, which are -- the growth is achieved in
7 a more consistent and a stable manner.

8 So, we did that by looking at the
9 cyclical percentile. So, we have an example
10 coming up on Slide 9. At the time we did this,
11 this was Disney. So, this was growing faster
12 than the median company at 62 percentile and more
13 cyclical, that growth was more cyclical than
14 median company at a percentile of 62 -- sorry
15 growth at 65 and cyclical 62. Together with
16 those two pieces of information, we categorize
17 this at that point in time as a high cyclical
18 growth company.

19 Once we have the categorization, once we
20 have pegged or identified companies into one of
21 these six groups or six life cycle stages at any
22 point, we then do the stock selection. And we
23 use a variety of different criteria or factors in
24 groups. We call these groups of factors or

1 groups of criteria as clusters. So, there are
2 three main themes or three main ideas of how
3 those criteria or factors are grouped.

4 Quality, when we are looking at
5 profitability, fundamentals and extent of monies
6 management.

7 Sentiments, where we are looking at
8 positive or negative bullish or bearish sentiment
9 of the stock from equity traders, option traders
10 and sell-side analysts.

11 And valuation, where we are looking at
12 relative cheapness or expensiveness of stock
13 versus number of different measures.

14 The nuance here is that the actual
15 factors that we use or the actual criteria that
16 we use under these three headings are different
17 based on which life cycle stage or which category
18 you are looking at. So, this customization of
19 criteria to the growth stage really helps us
20 create breath in our process and use factors or
21 criteria that are relevant to that growth
22 category.

23 For example, price to book is a more
24 relevant measure for mature categories. And it's

1 not a relevant measure for high growing fast
2 growing companies.

3 Page 11 is an example of one growth
4 category. And one stock high cyclical growth
5 category where we show all the factors under
6 quality, valuation, division of sentiments. And
7 we aggregate those factors and you see some of
8 these on this page. We aggregate those at the
9 cluster level. And we aggregate those cluster
10 level rankings to form a single ranking for that
11 stock which tells you how attractive that stock
12 is versus its peers in that category.

13 This particular company is ranked 2, the
14 second best versus its other peers in the high
15 cyclical growth category at this point.

16 Our objective was to select attractive
17 and unattractive stocks within each growth
18 category. Page 12 shows the result of doing
19 that. This is 15 years of empirical data based
20 on our way of categorization and stock selection.

21 So for example, for exceptional growth,
22 the most attractive stocks outperform by
23 5 percent. That 5 percent number is an
24 annualized existing number for 15 years. The

1 most -- the least attractive underperformed by
2 11 percent. And we have similar spreads an
3 differentiation between attractive and
4 unattractive stock performance for other
5 categories. And overall, we have 5 percent
6 outperformance for the most attractive stocks.
7 And minus 8 percent underperformance for the
8 least attractive stocks.

9 Now, this is at the model level. And
10 this is the information that you take to actually
11 construct portfolios with more realistic
12 constraints around the benchmark. And Kate will
13 talk about how that process works, what happens
14 on a day-to-day basis and how portfolio
15 management works.

16 MS. FARADAY: Great. Thank you,
17 Sheedsa.

18 So, we can turn our attention to slide
19 13. Now, we are at the third step of the
20 process. We covered the first step, which is the
21 life cycle categorization. The second step,
22 which is stock selection. Now we are at the
23 moment within the process of portfolio
24 construction, creating the optimal portfolios.

1 This is where the implementation team
2 creates those diversified and risk-controlled
3 portfolios. We are very transparent about how we
4 do that. We rank our names daily. We optimize
5 our portfolios monthly. And we categorize each
6 name within its universe into its life cycle
7 categories on a quarterly basis.

8 So, we apply very specific constraints,
9 some of which you can see here denoted on the
10 right-hand side. Maybe just to give a few
11 examples, if you look at the active stock
12 weights, B, representing benchmark plus or minus
13 1 percent; sector constraints at benchmark, plus
14 or minus 50 basis point. Now, this is at time of
15 rebalance. And these exposures are very
16 intentional. And our active weights are
17 intentional. And they are meant to be very close
18 to the benchmark for that controlled portfolio
19 withing the diversification across the six
20 categories.

21 So, we actively as a team review all of
22 the exposures before trading. We do extensive
23 pre and post trade analytics. And the team is
24 constantly monitoring the portfolios before and

1 after trading with structure and unstructured
2 meetings and, obviously, all communication
3 between the team.

4 So, I know I have given you a lot of
5 information in a quick period of time. We want
6 to pause before I hand it over to John to talk
7 about characteristics and statistics to see if
8 you may have any questions about the process.

9 MR. DIFUSCO: When you looked at the RFP
10 and you look at -- we have some investment
11 restrictions here Northern Ireland/McBride and
12 Sandy Hook, did you do any analysis or take a
13 look at to -- over a set period of time how that
14 would have been a positive or negative or how it
15 would have affected our performance in SMA?

16 MS. ALI: Yeah. We did look at it. I
17 think it was not restrictive to our process.

18 MR. DIFUSCO: It was not --

19 MS. ALI: It was not restrictive to our
20 process. It would be very, very small
21 performance impact if any.

22 MR. DIFUSCO: Okay.

23 I didn't even find some of the names in
24 our process. We would not be screening them out.

1 They are already screened out.

2 MS. FARADAY: They would be screened out
3 as it was anyway. Would not pose a problem.

4 MR. DIFUSCO: Would have a material
5 impact.

6 MS. FARADAY: Correct.

7 MR. DIFUSCO: Okay. Thank you.

8 MR. AMMATURO: I have a quick question
9 for Kate. On the portfolio construction side,
10 when the model says buy this stock, is there a
11 human intervention to say we don't want to buy
12 that stock because it's in the news or it's
13 getting invested by the SEC?

14 Is there any human intervention?

15 MS. FARADAY: Great question. So
16 actually, a couple questions in there. The first
17 thing to point out is that we are a quantitative
18 strategy. As John mentioned, we take the human
19 emotion out of it. We classify every name within
20 the universe. The benchmark, which we are
21 focusing on here is US large cap universe, S&P
22 500 as a benchmark.

23 We then categorize every name within the
24 life cycle. When we do the optimisation, we are

1 obviously very cognisant and monitoring
2 portfolios more macro news and events, not just
3 here in the U.S. but globally. We very rarely
4 intervene with names. We will go with what the
5 model selects based upon the optimisation where
6 the team reviews the optimal portfolio.

7 Once that's been computed through our
8 risk model and our optimization tools, then we
9 review and scan more, to your point, any macro
10 headline news that may or may not impact
11 portfolio. We will have a discussion. And 99.9
12 percent of the time we will go forward with what
13 the monitor believes is the optimal portfolio
14 because we believe in the process, the methodical
15 nature of that and how we implemented that since
16 inception.

17 MR. AMMATURO: You take it into
18 consideration, but you don't stop it from going
19 into the portfolio?

20 MS. FARADAY: Correct. Unless there was
21 some very extreme news. We did -- a recent
22 example in one of our global portfolios, not this
23 portfolio, we were obviously very cognisant of
24 what's going on with the French elections. And

1 so, we decided from an exposure perspective to
2 mitigate our risk and be neutral there. But that
3 is really more what we do rather than name
4 specific type things.

5 MR. AMMATURO: Thanks.

6 MS. FARADAY: So, we do very much keep
7 it in consideration, but we also stay true to our
8 process.

9 MS. ALI: If there is a serious EFG
10 concern, we might minimize the exposure versus
11 the benchmark rather than completely removing
12 it --

13 MS. FARADAY: Right.

14 MS. ALI: -- for such events. But it's
15 very, very rare especially in the U.S. for us to
16 override a name or pull something out.

17 MR. ZILKO: I think your question is
18 important, right. Because one of the things with
19 regard to our strategy that is a driving factor
20 is that it separates the signal from the noise,
21 right? Because the model focuses on the signal.
22 And we avoid some of the traps that are set in
23 the market from the noise that goes on in CNBC.

24 MS. ALI: And the other thing is also

1 active exposure for each name are fairly small.
2 We pulled a lot of names. Right now we pull
3 about 250-plus names for a 500 stock index. And
4 overweight is about max 1 percent versus the
5 benchmark. So for that reason, we've run the
6 strategy now for more than ten years. And that's
7 the process -- we've always been consistent with
8 that.

9 Any single name or any single event is
10 not going to have a material impact on the
11 performance on its own.

12 MS. FARADAY: Right.

13 MS. ALI: So, we stick to the process.
14 Think of it like an engineered process where the
15 whole thing gives you certain kind of exposure.
16 And we are trying to get and mimic that. If we
17 have to replace a name, this process is amenable
18 to that because we are not hung up on one
19 specific name. We try to find close replacement
20 based on the characteristics that we are trying
21 to get. But that is, again, very, very rare that
22 we can do that.

23 MS. FARADAY: Right.

24 MR. RUBIN: So, you said no specific

1 name or event would change your model. And
2 you've been able to weather it because of that.
3 If I look at your return in '08, you lost
4 34 percent. So how --

5 MS. ALI: Was this the benchmark? Was
6 it the benchmark?

7 MR. ZILKO: So, to your point in 2008,
8 the bench was down 37. And we were down 34
9 which -- don't get me wrong. Nobody wants to
10 lose that.

11 MR. RUBIN: I don't mean to pull on that
12 one.

13 MS. FARADAY: No, that's fair.

14 MR. RUBIN: When you say the events
15 don't affect it, events do affect it.

16 MS. ALI: The events don't affect the
17 active performance. They do affect the total
18 portfolio. We focus on the active performance
19 versus the benchmark, and the active risk versus
20 the benchmark. That is when I say the overweight
21 and active weight of each stock up to 1 percent,
22 each single stock material doesn't affect the
23 active performance.

24 Of course, there is kind of systematic

1 risk which is benchmark related which will be
2 there, which will be similar because we have --
3 if you look at our constraints, they are close to
4 the benchmark. So that -- that is it. That
5 would be akin to investing what you would get if
6 you invested just an S&P.

7 MR. RUBIN: So, the model doesn't see
8 those things happening in the markets and avoid
9 what looks like is coming down the road. It just
10 takes whatever is in your model, moves it
11 forward. And whatever the market does, your --
12 you are with it but beat it by --

13 MS. ALI: Yes, exactly.

14 MR. RUBIN: So when you outperform in
15 '13, were you end up at 34 percent, at that
16 point, it's the same thing. You're following the
17 market with that --

18 MS. ALI: Yes.

19 MR. RUBIN: -- little bit of --

20 MS. FARADAY: The nuances of the factors
21 within our process and the categories.

22 MS. ALI: Yes.

23 MR. ZILKO: We will touch on performance
24 now. I think that's important also. In the

1 world that we are right now with low return
2 expectations looking forward, say if we are
3 expecting, you know, 5 percent out of equity
4 markets. But we all know in this room you have
5 return objectives that you have to meet year in
6 and year out. That 1 percent of outperformance
7 consistently without taking on undue risk across
8 the core part of your portfolio is critical. And
9 that's what we are looking to provide. Not
10 taking on tremendous risk outside the benchmark,
11 but just beating it by 1 percent consistently.

12 MR. RUBIN: You haven't used the term
13 outperform on the upside and protect on the
14 downside, which most companies tell us. So I
15 guess, how that protection works as opposed to
16 where somebody is active manager, how do you
17 distinguish between an active selector and your
18 process?

19 MS. FARADAY: Right. That's fair.

20 MR. RUBIN: Why do you feel that
21 quantitatively, qualitative have differences?
22 And why do you go one versus the other?

23 MS. ALI: I think two points to that.
24 Our objectives and what we are trying to do is no

1 different from a fundamentally managed portfolio
2 manager, fundamentally managed active. If you
3 look on page 14 upside/downside capture ratio, we
4 are kind of doing exactly what you said.

5 Outperformance in up market, protection in down
6 market. Protection versus the benchmark.

7 MR. RUBIN: Now you said it. It's in
8 your --

9 MR. ZILKO: It's there.

10 MR. RUBIN: You avoided that all the way
11 through.

12 (Laughter)

13 MS. FARADAY: We like to keep that for
14 the end.

15 MR. RUBIN: I feel better now.

16 MS. FARADAY: Sorry. We should have
17 said that right up.

18 MR. ZILKO: If you don't mind, can I
19 take you to 16. I just wanted to show something
20 there. So with regard to everybody who is coming
21 in here and telling you that they outperform in
22 up markets and protect in down markets, which is
23 great. And yeah, we have done that, too. Right
24 here you will see against everybody else.

1 In the large cap space, there is between
2 250 and 450 names depending on what time frame
3 that you are looking at. Obviously, the longer
4 back you go, the fewer managers that were in the
5 space. But the numbers that you are going to see
6 on this page are relative to the entire large cap
7 core universe. And they are literally and
8 figuratively off the charts.

9 I mean, if you look on the left-hand
10 side, information ratio is jargon for manager
11 skills. It's essentially saying, what's your
12 outperformance and you divide that by your
13 tracking or around the benchmark. How do your
14 returns stack up against the benchmark. In
15 manager skill, we are beating 100 percent of our
16 competitors on every single time frame. If you
17 look at the right-hand side, that's just absolute
18 retunrs.

19 And to your point, everybody says what
20 they do well. But on every single time frame
21 that you look at, we are top core tile against
22 all 450 names. So consistency, again, just kind
23 of taking you back there is what we are all
24 about.

1 MR. RUBIN: 450 names that work in this
2 space.

3 MR. ZILKO: In the large cap.

4 MS. FARADAY: In the U.S. large cap core
5 universe from a peer perspective.

6 MS. ALI: Includes quantitative fund.
7 Manages high tracking and low tracking. Anyone
8 who identifies as a U.S. large cap core.

9 MS. FARADAY: Right. People will come
10 in and probably adjust it. But we like to look
11 at this way because it helps us have a barometer
12 for how we are looking against fundamental teams,
13 as well.

14 MR. ZILKO: It's one of the most
15 competitive spaces, as you can imagine, just
16 because large cap core is so flooded.

17 MR. DIFUSCO: As you wrap up, can you
18 just confirm the fee proposal.

19 MR. ZILKO: Yeah. That's great
20 question. I will start there.

21 Take a step back. There is three things
22 we really want to leave you with. I will touch
23 on fees, also. The first is process. We went
24 through that life cycle categorization, critical.

1 In our opinion, superior to what our peers are
2 doing.

3 Second in the large cap core space,
4 consistency is everything both in performance and
5 process. And hopefully, we demonstrated that to
6 some extent.

7 And the third thing, which is most
8 important on everyone's mind, especially nowadays
9 is fees. There was a big internal debate about
10 what to present as far as fees. Just so you all
11 know in the room, our stated mandate fee for
12 under 100 million is 25 basis points, which is
13 still on the low end. But when we put our heads
14 together and we decided that we really do want to
15 work with you guys, we are going to cut that down
16 to 18 basis points. Which is, you know, an over
17 20 percent reduction from our stated fee schedule
18 on a \$70 million mandate.

19 MR. RUBIN: How did you come to that?

20 MR. ZILKO: It was kind of two step.
21 First, we were saying, okay, look if we cut it
22 down by 20 percent down to 20 basis points, that
23 puts us below everybody else in the space. We
24 ran a pretty indepth analysis against what our

1 peers are doing. 25 is on the low end. 20 is
2 below most.

3 And then we said because we are coming
4 in here and Chris had said sharpen your pencils.

5 MS. FARADAY: Said sharpen your pencils.

6 MR. ZILKO: Yeah.

7 MS. FARADAY: So we did.

8 MR. ZILKO: We dropped it another
9 10 percent from there. That is how we got to 18.

10 MR. RUBIN: The fact you are sitting in
11 the Philadelphia Board of Pensions and they have
12 a lot more money, does that ever enter into the
13 equation?

14 MR. ZILKO: I would be lying to you if I
15 said it didn't.

16 MR. RUBIN: Okay.

17 MR. ZILKO: But in the same time, we
18 think working with the City in general, whether
19 it's Gas Works or the broader Pension would be an
20 honor for us.

21 MS. FARADAY: Absolutely. And that
22 comes right from the CEO's office down. There
23 have been lots of internal conversations around
24 that.

1 MR. ZILKO: He was involved in those
2 meetings. They always give us a nudge when we
3 try to cut it over 20 percent.

4 MR. AMMATURO: One last question. You
5 quoted 18 basis points at \$70 million.
6 Hypothetically, let's assume it's not 70 million,
7 it's a lesser amount. Where does that number
8 potential change or does it?

9 MR. ZILKO: That's a tough one for us,
10 and for me to kind of answer on the fly. But
11 let's put it this way. If Chris and I were to
12 hop on the phone and you were to tell me
13 something were to happen that way, I would
14 probably have to abide by what he said. I would
15 assume we would be willing to meet what you guys
16 would need. So if it came down to it, we likely
17 do it even if you ended up splitting the mandate
18 at 18.

19 MR. AMMATURO: Okay. Thank you.

20 MR. ZILKO: It wouldn't be easy for me
21 to get by our people upstairs. I would be
22 sweating a little bit in that conversation, but
23 I'll make it happen.

24 MS. FARADAY: Don't worry, he'll be

1 fine.

2 MR. AMMATURO: Easy for you to say.

3 MR. ZILKO: And then I'm fired.

4 MR. DIFUSCO: Kate, will take that over.

5 MS. FARADAY: That's right. I will meet
6 him right after that meeting.

7 MR. RUBIN: Are you related to David
8 Faraday?

9 MS. FARADAY: I'm not, not that I know
10 of.

11 MR. ZILKO: Somewhere along the lines.

12 MS. FARADAY: With Ancestry.com you
13 never know.

14 MR. RUBIN: Absolutely.

15 MR. DIFUSCO: Thank you.

16 MR. ZILKO: Any other questions?

17 (No further questions.)

18 MR. DIFUSCO: Thank you very much.

19 (Brief break taken.)

20 - - -

21 (Glenmede Presenters enter the room.)

22 MR. DIFUSCO: Thank you guys for coming
23 in this morning to present to the Commissioner,
24 staff and PFM. If you take about 20 minutes,

1 give or take, and focus the bulk of the time on
2 the approach and the strategy as opposed to the
3 firm. I'm not saying don't hit something if it's
4 important there, but spend an overwhelming bulk
5 of your time on strategy and how you make money
6 and stuff, that would be great.

7 MR. CORON: Absolutely. By way or
8 recognition, my name is Jeff Coron. I'm
9 responsible for the institutional business at
10 Glenmede Investment Management. And with me is
11 Val deVassal who is co-the portfolio manager of
12 the large cap strategy which we are going to talk
13 about. Just as importantly, he was the original
14 architect of the strategy at its inception 15
15 years ago.

16 Very brief background on Glenmede. We
17 are proudly here in Philadelphia for 61 years.
18 We have been in the One Liberty Place Building
19 for the last 23 years. And we just renewed our
20 lease last year for another ten. We are proud to
21 stay put for another nine. We have been
22 expanding our footprint. We are up to 360
23 employees. Our parent company is Glenmede Trust
24 Company. For those people from the area, that is

1 certainly a storied name.

2 The parent company has 36 billion in
3 AUM. The Glenmede Investment Management, we are
4 the investment management division inside of it.
5 And we control just over 16 billion. So, our
6 investment strategies fall under Glenmede
7 Investment Management, which we are about to talk
8 about. And our strategies really haven't been
9 made available outside of our own firm. Formally
10 2007, but realistically, with 2007, '08 and '09.
11 It was a little difficult in time to start. So
12 really since 2010 and '11. And we are at
13 16 billion value strategy for large cap core is
14 just over 3 billion.

15 For us, we firmly committed to
16 investment management business. We have half of
17 our professionals in GIM dedicated just to
18 investment management. Everybody is
19 headquartered here in Philadelphia including Val
20 and his team and on the investment management
21 side.

22 So quick overview. Any questions on the
23 firm, clarification in the RFP? Nothing?
24 Perfect.

1 Then we will spend the bulk of the time
2 with Val starting off with the team on page 5.

3 MR. AMMATURO: I'm sorry to interrupt.
4 What is the split of 16 billion between
5 institutional and retail?

6 MR. CORON: It's about 20 percent
7 institutional. So to give you a perspective, and
8 the reason I gave the chronological timestamp is
9 we really didn't start marketing outside of our
10 own firm until 2007. '08, '09 were difficult to
11 do that. And our assets, if you put a stamp on
12 this 16 billion, in 2012 I can reference because
13 that's when I joined, we were at 5 billion versus
14 16. And of the 5 billion, only 10 percent was
15 outside of our own firm.

16 Fast forward to today, 60 percent of our
17 16 billion is outside of our own firm. So our --
18 some of our asset strategies, the assets in them
19 weren't large enough to go into institutional at
20 that point. But the last two years when our
21 assets have crossed 2 billion in our individual
22 strategies -- and Alex can comment after we
23 leave -- that's kind of the point you need to be
24 before you will even get looks on the

1 institutional side.

2 So with that, we do DC. We do DB. We
3 have quite a few religious institutions as well
4 endowments and foundations and the like. With
5 our largest client being the PEW Charitable
6 Trust, which is how our firm is founded in 1956
7 by Joseph Pew. And today that's a \$6 billion --
8 \$5.5 billion charitable trust that we run money
9 within, as well.

10 Does that answer your question?

11 MR. AMMATURO: Uh-huh.

12 MR. CORON: Great. Yeah.

13 MR. de VASSAL: Turn to page 5. The
14 team consists of three senior portfolio managers.
15 We are all CFAs combined of over 60 years of
16 investment experience. My whole team has roots
17 in the Philadelphia area. And we also have kind
18 of an extended family with Drexel University. We
19 have a coop program with them to have the
20 students come in for six-month periods with us.
21 And a couple actually recent research analysts in
22 addition stayed and checked our products at
23 Drexel. So, we've really been fortunate to have
24 that relationship with Drexel.

1 I, myself, actually started my career at
2 Philadelphia National Bank, became Corestates.
3 And I was Director of Quantitative Analysis for
4 Corestates Investment Advisors before joining
5 Glenmede in 1998. The CIO of Glenmede actually
6 asked me to come to Glenmede and start up a
7 quantitative research group with Paul Sullivan
8 who was already at Glenmede. And our role was to
9 support our fundamental portfolio managers and
10 analysts, both value oriented and growth
11 oriented. Help them, provide them with new stock
12 making schemes that were more effective based on
13 their insights and also to provide them with
14 analytical tools.

15 And this, again, was '98, '99 was very
16 difficult environment for the capital markets.
17 And the CIO after a couple years started looking
18 at the performance of our tools and our models
19 relative to the fundamental PMs. And models were
20 actually doing better. And he asked us to equate
21 a quantitative discipline strategy, again, based
22 on those criteria and insights which we launched
23 in the first quarter of 2002. And we've been
24 managing that strategy ever since with a very

1 consistent process.

2 And then Alex joined us 11 years ago.

3 His background was very strong mathematics. We

4 used MatLab as our computer programming

5 environment to do a lot of the historical

6 analysis of what actually works in selecting

7 stocks over time as well as some top-down

8 industry grouping indicators. And do you still

9 see a dotted line to fundamental analysts? We

10 still have active dialogue with the analysts at

11 Glenmede and also from the sell side. They

12 provide us with continual new ideas to test and,

13 hopefully, improve our process on an ongoing

14 basis.

15 If you go to page 6, this is probably

16 the most important page of the package. It is

17 our five core principles. And this is -- we

18 think these are what differentiates us from what

19 others do.

20 I look at our approach as really

21 fundamental insights with an objective overlay in

22 what we do. I mean, I don't believe -- I'm not

23 the one who believes in throwing 20,000 data

24 series in a computer and sees what sticks on the

1 wall. Every idea we work has to be researched,
2 has to have an intuitive rational basis for. And
3 then, only then, will we include it in our
4 historical back test and optimizations and
5 potentially in our process.

6 If you go around the wheel there at the
7 top, we worked with fundamental analysts and PMs
8 for over 20 years. Basically, getting from them
9 what are the most effective ideas in the
10 differentiating stocks. If you talk to a
11 technology analyst verse utility analyst, we talk
12 about very different metrics as to why a company
13 is attractive or not. And so, we have unique
14 factors for each sector.

15 So, dividend yield may be good for
16 financials. It's not very good for technology
17 stocks. Many of them don't pay dividends. On
18 the other side, free cash flow yield we found is
19 very valuable in comparing stocks and consumer
20 discretionary and staples, but it's not relevant
21 in the financial sector. So, we really have
22 different models for each sector. And again,
23 coming from working with those individual
24 analysts over the years.

1 If you go down to the right, proprietary
2 models customized per sector, again, each sector
3 is different. How we come up with the models, we
4 have about 70-plus criteria that we developed
5 over the years. And we find what combination of
6 those criteria will help you identify stocks that
7 will outperform the average stock in that sector
8 by at least 2 percent on a rolling 12-month
9 basis. This is based on over 20 years of data
10 through market cycles. And again, what we are
11 trying to do is look for the upside and control
12 the downside risk.

13 We also have a top-down industry group
14 indicators. These help us overweight or
15 underweight industry groups. When you rank
16 stocks within a sector, you are not going to be
17 over/under weight the sector because you are just
18 ranking everything within the sector. We
19 actually have top-down industry groups that help
20 us overweight or underweight different industry
21 groups based on early economic signals as well as
22 bottom-up stock info from the industry.

23 The third spoke, proprietary models to
24 identify stocks more likely to underperform, this

1 is what's really different about what we do. Not
2 only do we have models to help us identify what
3 stocks are more likely to outperform, we have
4 multiple models that help us identify stocks at
5 risk or stocks that are more likely to
6 underperform. We found that sometimes the best
7 criteria for identifying what stocks are going to
8 outperform are not necessarily the best for
9 identifying what stocks are going to
10 underperform. So, we do these extensive back
11 tests looking at what criteria helps you identify
12 stocks that have some risk to the down side.

13 We also have a quantity earnings model.
14 And we also have what we call whisper signal.
15 This is a proprietary model that we developed
16 in-house that looks at which companies are likely
17 to have a positive versus a negative surprise
18 this quarter. I know there are all these
19 sell-side analysts out there. They have
20 investment recommendations. And many people are
21 skeptical of those and rightfully so. But we
22 actually found value in looking at the behavior
23 of the sell-side analyst. When do they make
24 changes in estimates whether for earnings or

1 revenues or growth rates? And also, we
2 objectively assess which of these sell-side
3 analysts have been most accurate in forecasting
4 earnings for the company over the last nine
5 quarters. And we look at them and where are they
6 relative to consensus.

7 And we also look at behavior of the
8 herd. Where are the analysts going? Are they
9 tending to raise estimates or tending to lower
10 estimates? Is there a term in the sentiments?

11 In total, there are 20 components in
12 this whisper signal model. And for us, it's done
13 an excellent job in identifying which stocks are
14 more likely to have positive versus negative
15 surprises. If there is a strong negative
16 whisper, more than half the stock will largely
17 have a negative surprise this quarter. And since
18 2008, that group has underperformed the benchmark
19 by more than 500 basis points per year to the
20 extent we can exclude some of those stocks out of
21 the portfolio. That's helped us with relative
22 performance versus the benchmark.

23 And the last spoke there, benchmark
24 agnostic position weights, that's also a key

1 difference of us versus other managers,
2 particularly like index funds or enhanced index
3 funds. We -- when you look at an index like the
4 Russell 1000 or S&P 500, it's priced base. So if
5 a stock is overpriced, it's effectually
6 overweight in the index. If it's underpriced,
7 effectively it's underweight in the index. And
8 how we address that issue is we ignore the
9 weights of individual stocks in the index.

10 So in 2014, we bought -- you know, we
11 had Apple was attractive and so was Skyward
12 Solutions. Our maximum weight to put a name into
13 the portfolio is 1 percent. And we will actually
14 trim it if it gets to close to 2 percent. That
15 year Apple was up 40 percent. We were hurt
16 because we were underweight Apple. Apple was 3,
17 4 approaching 5 percent of the index. However,
18 because we limited what we put in Apple, we were
19 able to buy Skyward Solutions which was a
20 supplier to Apple. That was up 150 percent that
21 year. So, we ended up overcoming the
22 underweighting in Apple by owning a supplier in
23 Apple, which was just attractive in our models.

24 And if you look at -- so this is a very

1 diversified process. There are a lot of
2 different things that we do to try and create a
3 well-balanced portfolio that has a consistent
4 performance over market cycles.

5 Next page, page 7, just shows our
6 relative performance quarterly. And you can see
7 that we outperformed in two-thirds or two out of
8 every three quarters. There are very few
9 managers with that kind of consistency in
10 performance.

11 MR. DIFUSCO: How does the batting
12 average percentage change if you include the fees
13 because you have provided gross of --

14 MR. de VASSAL: If your fee is 10 basis
15 points, you just subtract 10 basis. The batting
16 average, maybe instead of 67 would be 65. Again,
17 on a quarterly basis the fee is 40 basis points.
18 It's 10 basis points a quarter. You just reduce
19 the lines by 10 basis points.

20 MR. CORON: Jumping ahead into what we
21 proposed originally, our proposed fee assuming a
22 \$75 million figure is approximately 35 basis
23 points. So, we will handicap that and say 10 per
24 quarter. If you took 10 basis points off of

1 this, if you look at the green bars up above --

2 MR. de VASSAL: There is only one green
3 bar that would reduce.

4 MR. DIFUSCO: This is on a quarterly
5 basis.

6 MR. CORON: Correct.

7 MR. de VASSAL: There is only one green
8 bar with turn. On pages 9 and 10, they talk
9 about how we select stocks. Again, I mentioned
10 earlier, we have extensive data that we look back
11 over time. We look at the actual data of a
12 company 15 years ago as reported. And we also
13 look at the actual constituents of the benchmark
14 at that point in time. Actually, we are
15 recreating what an investor would have seen and
16 acted upon 15 years ago, 12 years ago, 20 years
17 ago. And then from that, we do these extensive
18 back tests where we will look at what combination
19 of criteria and weights will create a screen that
20 would identify stocks that will more likely
21 outperform the average stock in that respective
22 sector of 52 percent.

23 And you will see that in the middle that
24 the models are pretty well balanced, about

1 30 percent on average across the sectors on
2 evaluation metrics, 30 percent or more business
3 management or more fundamental growth-oriented
4 metrics. We have about 20 percent on earnings
5 estimate and revenue estimated related factors,
6 more forward looking ideas from the analyst. And
7 then we have about 20 percent in market
8 confirmation.

9 And we do have some price momentum, you
10 know, saying that the stocks outperformed in the
11 last nine to twelve months. There seems to be
12 some carryover effect. But we actually have more
13 weight on long time price reversion. Those
14 stocks that have outperformed for the last three
15 to five years, it's hard for those companies to
16 keep beating higher and higher expectations. We
17 actually will prefer owning a company that has
18 underperformed in the last three to five years,
19 but analysts are starting to raise estimates.
20 The valuation is attractive. The free cash flow
21 yield is very strong. Profitability metrics are
22 getting -- improving. That's what we are looking
23 for is those types of characteristics. And then
24 we will create a portfolio that looks -- that has

1 those biases relative to the benchmark.

2 It's very hard to find a single stock
3 that's perfect. Has -- is cheap, high cash flow,
4 strong profitability and are raising estimates.
5 But we can create a portfolio that looks like
6 that. But we own a lot of stocks. We own a
7 hundred stocks basically to help us diversify
8 away some of that stock specific risk, so that we
9 create a -- you know, so that the portfolio
10 actual performance is driven by the underlying
11 attributes of this cheapness, strong
12 profitability metrics.

13 If we go to page 10, we actually -- our
14 initial buy screen is the top three deciles of
15 the Russell 1000. But then we apply our downside
16 screens. Again, sell models, our proprietary and
17 supply signal, we also exclude highly volatile
18 stocks. These are not stocks with high beta, but
19 stocks that have high stock-specific risk. It
20 might be a company that's under litigation or it
21 might be a biotech company where their
22 performance is going to be driven by an FDA
23 ruling. We do not buy those stocks. There is no
24 fundamental support as to why we should own

1 those. And we found our risk-adjusted basis
2 investors are usually disappointed.

3 Again, we have our own earnings quality
4 measure. We don't order -- the earnings that
5 accompany reports are held consistent with the
6 balance sheet activity and the underlying cash
7 flows. This dates back to the Worldcom Enron
8 days where companies earnings reports were not
9 necessarily consistent with the underlying stuff,
10 and there is a potential risk there.

11 And then we also look at S&P debt and
12 quality ratings. We are not going to invest in a
13 stock that has a poor junk debt rating. There is
14 a greater risk of default or bankruptcy, we will
15 step away from that.

16 Page 11 just talks about industry group
17 indicators. Again, we are looking at what
18 combination of the economic -- early economic
19 signal and stock data helps identify which
20 industry groups will do better or worse from this
21 point in the next nine to twelve months.

22 And lastly, page 12, this is our sell
23 discipline. This is very challenging for a lot
24 fundamentally-oriented managers because they are

1 in love with the stock. They have a courtship
2 period, they fall in love with the stock. They
3 put it in the portfolio after several months.
4 It's hard to let go. We have a very strong sell
5 discipline. If a stock hits a strong negative
6 surprise signal or it's in the bottom point of
7 all our sell models, we will force that stock
8 out. No questions asked. We are not in love
9 with anything in the portfolio. That has helped
10 outperformance significantly. In fact, a quarter
11 of our alpha since 2008 has come from being
12 underweight the stocks that are poorly ranked in
13 our sell models.

14 And if you go to pages 15, just taking a
15 look at the portfolio, you will see that there is
16 no holding in the portfolio that's more than
17 one-half percent. Again, if something purchased
18 2, we will trim it. We have about 12.9 percent
19 in the top ten names. If you looked at the
20 Russell 1000, the top ten names is over
21 18 percent. I would argue we have less
22 stock-specific risk in those names than the
23 benchmark. The benchmark has a greater weighting
24 and Apple between 3 and a half percent, Google

1 and Microsoft both well over 2 percent. Amazon
2 is now 1.6 percent.

3 If you look at our sectors, our industry
4 group bets are only plus or minus 2 percent
5 versus the benchmark. And we cap the sector
6 within 3 percent. That helps control tracking
7 error relative to benchmark. Right now we are
8 overweight healthcare. Healthcare in our models
9 looks attractive. It's been beaten down, you
10 know, first around the election cycle.
11 Healthcare sectors up 10 percent over the last
12 twelve months, while the S&P is up 18.

13 And we are actually reduced our
14 weighting in technology. We were strongly
15 overweight since 2011. But earlier this year, we
16 actually reduced it. Technology in the last
17 three or twelve months is up 35 percent. The
18 stocks aren't as cheap anymore, so we actually
19 reduced that exposure.

20 Consumer discretionary, we are
21 underweight. We are in the later stages of an
22 economic cycle. Consumer discretion tends to do
23 better in the early stages of an economic cycle
24 or even at the bottom of the recession. We are

1 much later in stage and they tend to not do, as
2 well. We also have seen risk with the retailing
3 industry. And again, battle of Amazon versus the
4 brick-and-mortar.

5 This is just showing -- again, there are
6 a lot of stocks here that create this overall
7 portfolio. And page 16, again, to me this is a
8 good snapshot of what we are trying to do. I
9 mentioned earlier it's hard to find that perfect
10 stock. Maybe you can create a portfolio that is
11 consistently cheap relative to the benchmark,
12 much lower PE, strong historic earnings and
13 dividend growth, high free cash flow yield,
14 strong profitability metric. And frankly, the
15 stocks we own are more likely to have positive
16 earning surprises and fewer negative earning
17 surprises every quarter. And that's the good
18 place to be.

19 On page 18, can see our annual
20 performance. There are three years when our
21 composite underperformed the Russell 1000 index
22 since 2002. The years when the strategy works
23 well is when valuations and earnings matter for
24 investors. But in the years like '07 and '09

1 when had macro issues driving investor behavior.

2 I mean, in '08 everybody wanted out.
3 They didn't care what price. Company values
4 didn't matter. So our models, you know, didn't
5 add a lot of alpha in that period. But at the
6 same time because we had a cheaper portfolio, we
7 had these earning surprise signals helping us out
8 get out of more risky names. We were actually
9 relatively inline performance with the benchmark
10 even though we had a smaller market cap during
11 those years.

12 And page 19 I think is important because
13 it kind of shows the diversity of where our
14 performance come from -- comes from. It doesn't
15 come from one debt, one buy model. It comes from
16 having buy models, having downside risk going to
17 sell models, our industry group biases, our
18 earning supply signals, earning quality signal
19 and the fact that we are a benchmark agnostic to
20 individual stock weights and index.

21 So, this is what's contributed to that
22 consistent performance over the years.

23 MR. CORON: With that, we are at 20-plus
24 minutes.

1 MR. de VASSAL: I'm sorry.

2 MR. CORON: That's okay. I want to
3 leave time for -- wanted to make sure we respect
4 your time and your agenda.

5 Questions? Comments? Clarifications on
6 anything that Val or I have mentioned or prior in
7 reviewing the RFP and presentation?

8 MR. AMMATURO: How often do you say no
9 to the model in terms of headline risk in the
10 stock?

11 MR. de VASSAL: We do not look at --
12 headline risk to us, most of the times, is
13 meaningless. The only exception we will do is
14 every month we refresh the portfolios. We look
15 at our down sides and force things out. You
16 know, Trump's tweets have caused a lot of stock
17 to move up and down. But unless they are
18 supported by some action, where the sell-side
19 analysts are starting to adjust their estimates
20 for that action, then it would be actually
21 reflected in our model.

22 One caveat, though, was this was a long
23 time ago was Derrall Financial. It was a Puerto
24 Rican financial institution. And all of a

1 sudden -- every day we actually have a report
2 that flags all of the biggest movers in the
3 portfolio in the morning. And Darrell popped in
4 there. And the stock was down, like, 10 percent.
5 And we ended up looking at what was going on.
6 And apparently, there was significant issue of
7 fraud, that the earnings they reported were
8 fraudulent in their off-balance sheet.

9 We took a look at it immediately. And
10 felt, you know, there was a strong case of
11 materiality here. That the data we're using that
12 ranked the stock was no longer appropriate. We
13 forced it out. That's only one example in 15
14 years of managing strategy. Otherwise, to us
15 headline risks usually ends up an overreaction.
16 If everybody's acting -- negative news comes out.
17 If everybody is acting on the news, the stock
18 gets oversold. And on other side, you know,
19 there is headline news that is positive,
20 everybody buys into the stock. They overshoot.
21 That's when you tend to have the short term
22 reversion in stock prices on one week or
23 one-month basis.

24 But that's how -- but at the same time

1 every month we run the -- we refresh the
2 portfolios. We will force names out. We will
3 replace them objectively with new names on our
4 buy list. We run Northfield Portfolio
5 Optimization Risk Analytical Tools. And one
6 thing we want to make sure is the portfolio is
7 improving.

8 Now, it is a complex process, and not
9 all the constraints are met on -- the optimizer
10 tries to do the best it can. But Paul, myself
11 and Dave will review the results of the
12 optimization with the core sales. Sometimes it
13 won't force something out completely, and we will
14 force it out. Sometimes the optimizer will say
15 we should buy 0.2 percent of something. Well, we
16 are not going to start a new position.

17 So, we do look at it. At the end, we
18 look at the portfolio metrics. And one, we want
19 to make sure the portfolio after these changes is
20 going to be better and have more attractive
21 attributes than before we made the changes. And
22 we do this every month in our process.

23 We have also managed impact, I guess,
24 responsible portfolios. We mentioned

1 environmentally sensitive portfolios since 2002.
2 Branch of many portfolios religious
3 organizations. We are very familiar with working
4 with restriction lists. And again with our
5 process, because we own a hundred-plus stocks, a
6 small restriction, you know, reasonable
7 restriction list will not have much impact on the
8 performance on that.

9 MR. CORON: Other thoughts in closing?

10 And again, we stated previously and on
11 page 20 is what our fee quote would be assuming
12 based on the original RFP. And we would be happy
13 and honored to manage money for the City.

14 MR. DIFUSCO: Thank you.

15 (Brief break taken.)

16 - - -

17 (Wellington presenters enter the room.)

18 MS. O'GANNON: My name is Kristina
19 O'Gannon. I'm a business developer at Wellington
20 Management. I am joined by Brad Huggins who is
21 Investment Director for our Research Portfolios
22 as well as Andre Desautels, who is one of our
23 partner of the firm and one of our global
24 industry analyst. One of the 28 of 56 global

1 industry analysts that run a sub-portfolio of the
2 large cap research portfolio I will talk to you
3 about.

4 So, Chris had shared we are going to
5 keep it -- we are going to get you out of here
6 before noon or we are going to get out of here
7 before noon so you can move on with your agenda.
8 So, I am going to keep my comments rather brief.
9 There are a few points about the firm and
10 Wellington that I think is important for you to
11 know to set the stage for what we are going to
12 talk about in the strategy.

13 That means that you have in the
14 materials a few pages at the beginning behind Tab
15 1 that outline the firm and who we are. But
16 again, I am going to keep this rather brief.

17 So, we are a large asset manager. All
18 we do is we do one thing and one thing only, and
19 that is manage assets for client. There are no
20 competing agendas. We are a global firm, so we
21 are rather diverse with over a trillion dollars
22 in assets under management. We do equity as well
23 as fixed income. But at the core of our firm,
24 our investment model, what we really focus on is

1 this proprietary research. That is going to come
2 to light today when we talk about the portfolio.

3 Andre being a global industry analyst,
4 as I mentioned, there are 56 global industry
5 analysts at Wellington. All are career analyst
6 following their industry for their entire career.
7 We don't view research as a stepping stone in
8 portfolio management. This is actually a career
9 path. We will talk to you why that is important
10 in how we implement the strategy of how that
11 generates alpha for our clients.

12 Another thing that you should keep in
13 mind is our ownership structure at the firm. We
14 are a private partnership. And why is that
15 important to you? Is that we have -- we are able
16 to align our interests with our clients. We are
17 not reporting -- we are not looking at stock
18 price. We are not looking to report to
19 shareholders. We are really truly aligned with
20 our clients. We are able to take a long term
21 perspective. And quite frankly, that
22 partnership, that carrot is there to attract
23 investment talent and retain investment talent.

24 I mentioned at the beginning Andre is a

1 partner at the firm. He will be with Wellington
2 until he retires, quite frankly. And he can talk
3 a little bit about that.

4 MR. DESAUTELS: Or die. Whatever comes
5 first.

6 (Laughter)

7 MS. O'GANNON: When that proverbial box
8 comes by. I think the other key thing to mention
9 is that what you will hear today is we have these
10 sub-portfolios. Andre does a couple of things in
11 his role as he is analyzing companies for the
12 broader Wellington to actually use his thoughts
13 and his research and implement in other
14 portfolios. He is able to manage money for
15 clients using these best ideas.

16 What we are going to talk to you about,
17 Brad, will start and walk through kind of the
18 overall strategy and the philosophy. And Andre
19 will talk about -- bring it all to life to you,
20 how an analyst actually implements their
21 sub-portfolio of the -- their sub-portfolio
22 within this overall portfolio. How we are
23 thinking about it is we are truly a firm that
24 believes in collaboration. We are truly a firm

1 that aligns our interest with clients.

2 With that being said, I will turn it
3 over to brad. We will talk a little bit about
4 the structure of the portfolio.

5 MR. HUGGINS: Great. Feel free to jump
6 in with questions.

7 So, I am going to start on page 4. At a
8 very high level, what is the goal? So, the goal
9 is to consistently deliver excess return above
10 the S&P 500. And we believe the best way that we
11 can do that is by focusing the portfolio's risk
12 on stock collection, which is where we think we
13 have an edge because of our deep research.

14 Couple of points I will hit here on page
15 4. Number one, it is a team approach.
16 Twenty-eight different people are involved.
17 There is no single portfolio manager at the top.
18 This is a little bit unique relative to probably
19 a lot of other strategies that you might find.
20 And we will talk a little bit about how it all
21 comes together. But 28 different portfolio
22 managers, Andre being one of those.

23 What does that allow us to do? Allows
24 us to get breadth and depth in coverage. So even

1 though this is just a U.S. portfolio, think about
2 a company like Nike. If you are Nike, you are
3 looking at buying Nike in the U.S. portfolio.
4 You need to know what is going on with Adidas.
5 So, our analysts look across the globe and
6 generally across the market cap spectrum at their
7 industry and then identify the best ideas within
8 the U.S. context and what we would own here.

9 They are career specialist. They are
10 not rotating around. Andre is here just to focus
11 on Telecomm. His goal is not then to rotate to
12 energy and financials and become a diversified
13 portfolio manager. It's just to be a career
14 industry specialist. And each analyst has their
15 own unique approach in terms of how they look at
16 their industry. We don't have one framework that
17 everybody has to use at Wellington. We don't
18 have somebody at the top saying everybody has to
19 to look at this particular valuation metric or
20 use the same model. And we think that's
21 important for a couple reasons.

22 Number one, we are not using blunt tools
23 to analyze a single industry. Banks are very
24 different than retail companies. We think it

1 makes sense to look at them differently.

2 And then number two, it means we get
3 diversification of style in the portfolio.

4 Kristina mentioned that one of the things you've
5 been thinking about is have a growth allocation
6 and value allocation, does it make sense to
7 consolidate that into a core context. We are
8 actually doing that in this portfolio. We have
9 some that are growth, some that are value, some
10 that are quality, some that are contrarian. You
11 actually get different types of investors in the
12 portfolio. Ultimately, what you get is a core
13 portfolio.

14 Any questions there just to the very
15 high level?

16 (No questions.)

17 MR. HUGGINS: Okay. One thing I should
18 mention is the portfolio is sector or industry
19 neutral. We are not trying to make allocation
20 decisions from a sector or industry perspective.
21 We are not trying to say, you know, energy we
22 think is going to outperform. Now we want to go
23 overweight energy. We actually neutralize that
24 decision and then let the analyst pick the best

1 stocks in their industry. The reason why we do
2 that is the chart on page 5.

3 What this is showing the blue part of
4 the chart is basically representing the
5 opportunity to pick stocks within a sector. How
6 wide is that opportunity -- assuming it has some
7 skill, how wide is that opportunity for somebody
8 to add value? That is the blue part of the
9 chart. The orange part of the chart is the
10 opportunity to pick among the sectors. So, are
11 you going to overweight energy or financials or
12 utilities.

13 And the idea here is that the biggest
14 part of the chart is that blue part of the chart.
15 That also happens to be where we think we have an
16 edge. We would rather neutralize the orange part
17 of the chart, neutralize the risk that could come
18 from overweight or underweighting sectors, and
19 just focus stocks or portfolios risk on stock
20 selection.

21 Page 7 is the team. So, you will notice
22 that we have got 56 people on our central
23 research group. Only 28 manage in the large cap
24 U.S. portfolio. And actual question is, how do

1 you go from that broad of a group just to the 28?
2 It's a function of two things. Number one, their
3 coverage assignment. Do they have coverage that
4 lines up with an S&P 500 or U.S. large cap type
5 of mandate? And then number two, you will also
6 notice that the people with a triangle to the
7 left of their names who are the people in the
8 portfolio that manage a sleeve, they are
9 generally 15, 20-plus years of experience. And
10 that's by design. Because the last
11 responsibility of an analyst will earn at
12 Wellington will earn at the firm is the
13 opportunity to manage assets on behalf of our
14 clients.

15 I mentioned before, they are deeply
16 specialized. So, Andre focuses on Telecomm. We
17 have another analyst that focuses on biotech. He
18 actually used to teach and do research at Harvard
19 Medical School. So, he understands the science.
20 Spends a lot of his time reading through medical
21 journals. He will meet with CEOs and CFOs of
22 companies. He oftentimes likes to spend his time
23 with some of the R&D folks understanding the
24 science. Clearly, a role that would be

1 challenging for a generalist portfolio manager or
2 even a quantitative model to try and understand
3 some of the nuances between these biotech
4 companies.

5 So, we think that the expertise that
6 each analyst has leads to better insight
7 ultimately getting into the portfolio in terms of
8 ideas.

9 And then the last thing I mentioned
10 about the team is its low turnover. So, 5 to
11 7 percent turnover annualized. And about half of
12 that just comes from people retiring who spent 30
13 years at Wellington and then retire. So low turn
14 over intentionally not zero. We want to make
15 changes where we think we need to make upgrades,
16 but we also want to capitalize on the expertise
17 that we are building over time. We intentionally
18 don't want very high turnover.

19 And then like Andre, 18 of the 28
20 portfolio are partners of the firm. Even though
21 we call them global industry analysts, it's not a
22 junior role. It's on par with the portfolio
23 manager at other firms.

24 In terms of the mechanics of the

1 portfolio, spend a few minutes there. Page 9.

2 So, I mentioned each analyst uses their own
3 framework for analyzing their companies. Here we
4 have got five examples. Andre in a moment will
5 go into describing his in a little bit more
6 detail. But let me use two examples here.

7 In the upper left-hand corner her you
8 have John Averill who covers hardware and storage
9 companies. John tends to be -- covers Apple,
10 Cisco, Oracle. He tends to be more of a growth
11 or momentum investor. He thinks in his part of
12 the market, in his industry, companies -- their
13 stock prices follows sequential earnings growth.
14 So, he tends to look for growing markets, growing
15 market share and growing margins. And when one
16 of those certain things breaks down, he will sell
17 a stock. He tends to have a very growth momentum
18 type of sleeve in the portfolio.

19 If you contrast that with Tom Levering
20 in the upper right, Tom focuses on utility. He
21 covers utilities for us. He thinks that the
22 market generally over pays for high growth and
23 high yield and under pays for stable growth. So,
24 he tends to have more of a return-on-capital type

1 focus. Maybe describe him more as a
2 quality-oriented investor. And his quality
3 orientation helps to diversify John's growth
4 bias.

5 We have Ann Gallo in the lower right who
6 tends to be more of a value investor. She helps
7 to diversify that. Ultimately, when you bring
8 each of these pieces together, you end up with a
9 core portfolio. So, the total portfolio doesn't
10 have any style tilts. But beneath the surface yo
11 have these different types of investors that can
12 help drive out from different environments.

13 In terms of capital allocation, how is
14 that determined? How do we decide how much of
15 the portfolio each analyst manages? It's just a
16 function of the industry rate at benchmark. So
17 Andre covers Telecomm. Telecomms are about 3 and
18 a half percent of the S&P 500. So, we give him 3
19 and half percent of the capital. His goal is to
20 beat that Telecomm benchmark. He doesn't buy
21 energy. He doesn't buy healthcare. He can just
22 focus on Telecomm.

23 And then we rebalance the portfolio on a
24 quarterly basis. And we do that for two reasons.

1 Number one, to preserve the industry
2 neutrality in the portfolio. If an analyst
3 happens -- if Andre outperforms his Telecom
4 benchmark and becomes a bigger piece of the
5 portfolio, we will take capital from him and
6 redeploy that to other analysts so that the
7 industry weight is in line with other benchmarks.
8 So, we are not getting risk in the portfolio
9 coming from unintended over and under weights.
10 It's really stock selection that drives that.

11 And then the second element of the
12 rebalancing process is we look at risk in the
13 portfolio. We will look at the total portfolio
14 and make sure that it's balanced from the growth
15 and the value and the volatility and momentum
16 perspective. We have a number of factors that we
17 look at. And more of a quantitative approach.
18 And we will rebalance the portfolio if we need to
19 if the total portfolio for some reason has a
20 growth tilt. We can take some capital from some
21 of the growth-oriented analyst and redeploy it to
22 those that are more diversified.

23 Any questions there just on the
24 mechanics of the portfolio?

1 (No questions.)

2 MR. HUGGINS: Okay. So before I turn it
3 over to Andre, let me hit the last two pages
4 here, page 10 and 11. These are probably the
5 most important pages in the presentation.

6 Page 10, what we are showing here on the
7 left-hand side we are showing tracking risk of
8 each sleeve in the portfolio. On average, an
9 analyst will have between probably 8 and
10 10 percent tracking risk relative to their
11 benchmark. So, they are picking their best
12 ideas. Today Andre owns 23 names in his sleeve
13 in the portfolio. We have some analysts who will
14 own 5, maybe 10. These are pretty concentrated
15 sleeves in the portfolio.

16 Now because of diversification that we
17 get from having different industry exposures and
18 the different style exposures of the analysts,
19 the upper right-hand corner you end up with a
20 portfolio that has very modest tracking risks at
21 the total portfolio level. Each of the
22 individual analysts are taking a lot of risks in
23 picking their best ideas.

24 But because diversification of the

1 portfolio structure, you end up with a portfolio
2 that doesn't have to take a lot of risk. And the
3 vast majority of that risk, that 2 percent
4 tracking risk or that 1.7 percent is focused at
5 the stock level. And what does that translate to
6 in terms of performance -- a performance pattern?
7 If you look at page 11, this is sort of
8 punchline.

9 What we are showing here is a comparison
10 of our large cap strategy relative to U.S. large
11 cap managers over the last three years and the
12 last five years. So, the left three bars are
13 three years. The right five bars are five years
14 on an alpha tracking risk and information ratio
15 and risk adjusted return. And what you can see
16 here is if we can deliver first or second
17 quartile alpha relative to the peer group with a
18 very modest tracking risk profile that the
19 portfolio ends up delivering, that is a recipe
20 for very, very attractive information ratio
21 relative to peers, top decile information ratio
22 over the last three and five years. If you look
23 at this on a rolling basis, you will see a very
24 consistent profile.

1 We don't have to take a lot of risks.
2 The risks we are taking is very focused on stocks
3 where we think we have an edge. And that ends up
4 producing a portfolio that is very attractive
5 decisions.

6 Let me pause there and see if you have
7 any questions.

8 MR. DIFUSCO: I am going to ask a
9 question on a unrelated topic and skip ahead
10 slightly. I notice when I read the presentation
11 beforehand and focused on it a couple times today
12 that your objective is to outperform over three
13 to five-year cycles. So when we ask -- a lot of
14 times we ask folks to present performed-based
15 fee option, which you guys did. Not everybody
16 does. But what kind of struck me was the
17 performance-based fee option crystalized in terms
18 of when you folks would get paid would be on a
19 one-year basis.

20 MR. HUGGINS: Yeah.

21 MR. DIFUSCO: To me that's somewhat
22 inconsistent.

23 MR. HUGGINS: Little counterintuitive.

24 MR. DIFUSCO: Why on a performance-based

1 option should you be compensated on a yearly
2 basis as opposed to you can even do it on a
3 rolling three-year basis or rolling five-year
4 basis if you are -- I mean, in my mind, that at
5 least in theory, I'm not saying you would do it.
6 But it would potentially would incentivize folks
7 towards the end of the year to make certain moves
8 to try to get over as opposed to, hey, we are
9 going to be paid every three years or paid every
10 -- I know I skipped ahead. But could you talk
11 about that?

12 MR. HUGGINS: It's a totally relevant
13 question. So, the reason we structure it with a
14 one-year measurement period is purely for a
15 simplification reason. So, we can do a
16 three-year period if that's easier. What ends up
17 happening with a three-year period is sometimes
18 the build-in to the first three-year period can
19 be a little bit tricky in terms of how clients
20 want to do that. So just for simplicity sake, we
21 offer a standard one year.

22 Now the one year has a high water mark.
23 We are not just trying to beat it every year. If
24 we go down a lot in one year, the next year

1 doesn't matter, just trying to beat it over a
2 one-year period. We need to crawl out of that
3 over performance for the prior year.

4 Effectively, is the same type of structure as a
5 three-year period. We would be happy to do that
6 as well if that is of interest.

7 One other thing I should mention is how
8 the analysts are actually incentivized in their
9 sleeves. The way that Andre and all the other 27
10 analysts in the portfolio are compensated is
11 based on their one, three and five-year
12 performance relative to their benchmark. 80
13 percent of the weight is on the three to five
14 year. So, they are not incentivized to take a
15 lot of risk in the short term to try and
16 outperform for compensation reasons. We really
17 try and align our interests with our clients in
18 doing that.

19 Just one point on the fee. I think from
20 a -- I know one of the things you've also been
21 thinking about is active and passive. If you can
22 find a manager willing to partner with you on a
23 structure that will give you a very modest base
24 fee, something very comparable to passive with

1 some potential upside if they deliver active
2 returns is probably the right way to be thinking
3 about it.

4 MR. DIFUSCO: Okay. Thank you.

5 MR. HUGGINS: Any other questions on
6 just the broad portfolio before I turn it over to
7 Andre to talk a little bit how he thinks about
8 his piece of the portfolio?

9 (No questions.)

10 MR. DESAUTELS: I will jump in.

11 Well, thank you everyone for giving us
12 the opportunity, taking your time to meet with
13 us. I have been at Wellington for 11 year, so
14 that's on the younger side of things although I'm
15 past maybe the hazing stage. I'm not a rookie
16 anymore. But as Brad mentioned, it is a place
17 where people stay a long time for good reason.

18 The work that I do for our clients is
19 really all around investing in the Telecomm
20 space. These are companies like Verizon, AT&T,
21 Comcast and so forth. I thought I would give you
22 a little bit of detail on how I go about doing
23 that. And please, feel free to jump in with
24 questions at any point in time.

1 What I find most important for our
2 clients in investing in the sector is to look for
3 two things. One is a healthy market structure,
4 healthy competitive structure and a company that
5 has scale within that structure. And secondly,
6 is valuation. Scale within a sector matters
7 because this is a largely fixed cost business.
8 So the bigger you are, the more you can spread
9 out those fixed costs and make good returns on
10 capital or generate good free cash flow. But it's
11 also very important that your competitors are
12 fairly disciplined or that you have a dominant
13 position versus your competitors so you can
14 maintain decent pricing and generate good returns
15 for shareholders.

16 On the valuation side, the second part
17 that I find important, I spend a lot more time I
18 think than most people who look at the sector
19 looking -- spend a lot of my time trying to
20 understand really what is the free cash flow on
21 the sustainable basis that these companies can
22 generate. I like to do that for two reasons.

23 One, it's a really better reflection of
24 whether these companies are earning good returns

1 or not versus EPS or Epic Dot or things like
2 that.

3 Secondly, I go into investing and
4 thinking about investments with a healthy
5 scepticism that sometimes, many times I will be
6 wrong. And valuation helps gauge what -- you
7 know, what's at risk if you're wrong and how much
8 money you can make for your clients if you are
9 right, and how much you would lose if you are
10 wrong. And it really helps your odds. It's kind
11 of essentially swinging when you have a hitter's
12 count. That's why valuation is an important
13 component of my investment process.

14 If we bring this to the U.S. on the
15 telecomm markets in terms of talking about
16 competitive structure, there is really two big
17 markets. We are talking about the wireless
18 markets; and secondly, the home kind of activity
19 market. That is the broadband and so forth.

20 On the wireless side, if we roll back
21 four, five years ago, this used to be a great
22 market for two companies for AT&T and Verizon.
23 They were really a duopoly, controlled the
24 sector. You might remember, it was very hard to

1 switch back in the day. If you had Verizon, if
2 you were a Verizon customer, you had CDMA phone
3 that didn't work on AT&T's network and vice
4 versa. AT&T and Verizon. And so if you were
5 Verizon customer and wanted to switch, basically
6 you can only go to Sprint which was a very
7 inferior network in terms of quality and
8 coverage, especially in the suburbs. And the
9 same thing on the AT&T side. You had wanted to
10 switch to keep your phone, you have to go to
11 T-mobile. They didn't have good coverage in the
12 suburbs and so forth. Also, you had -- they
13 didn't have the iPhone. If ou wanted the iPhone,
14 AT&T was the only place you can go and so forth.

15 It use to be the business that was a
16 duopoly that looked great for those two
17 companies, was tough for consumers. But as
18 certain things evolved, namely around technology
19 and iPhones and competition, we felt it was going
20 to get a lot tougher for the top two companies
21 and continue to get tough. And that's -- so we
22 have gone from that period, what it looked like
23 five years ago, to today where you can basically
24 get unlimited from any carrier. You can bring

1 your own phone anywhere you want. Most carriers
2 will reimburse you if it's going to cost you 4 or
3 500 dollars to move over from AT&T to Verizon and
4 vice versa.

5 It's really the ease for consumers to
6 switch has drastically changed over the last
7 four, five years. And we saw that type of
8 situation was more apparent than a lot of
9 European markets where you didn't have that kind
10 of lock in for the top two guys. The difference
11 in network quality between one and two and number
12 three and four was much smaller. When that
13 difference is less, the price premium that the
14 two guys can get compresses and gets much more
15 price competitive. That is what we saw unfolding
16 in the U.S. And so, we had no exposure to these
17 two big companies, Verizon and AT&T in this
18 portfolio for almost four years now. Entirely
19 based on market structure that was great but was
20 going to get a lot tougher going forward.

21 On the flipside --

22 MR. GOLDSMITH: Can I ask a question.
23 Those names were not in your portfolio?

24 MR. DESAUTELS: Yes. Correct. The

1 client didn't -- they were big parts of my
2 personal benchmark, you know as to what I was
3 supposed to manage to. But our clients had no
4 exposure to those two names.

5 On the flipside, the other markets
6 home-kind of activity, we're really talking about
7 cable companies, you know, and some offering
8 broadband connectivity. That is the flipside.
9 It's basically a market where broad -- we are
10 really talking about broadband here to the core
11 product, home broadband. That is a product where
12 it's importance to consumers that's grown a lot
13 over the last four or five years.

14 Cable companies via Comcast, you know,
15 and Comcast and Charter, Time Warner, these
16 companies are by no means loved by their
17 customers, far from it. They really do have a
18 virtual lock on the product and have high quality
19 broadbands. That creates for them still market
20 share today. Creates very sticky customer base.
21 It's really hard to switch, drop down in speeds
22 if you go somewhere else.

23 And it gives them a certain amount of
24 pricing power, so the scale players in the home

1 broadband market really are the ones that can
2 generate a lot of free cash flow, reinvest that
3 free cash flow to sustain their dominance and
4 also give money back to shareholders either in
5 the form of dividends or buy backs. We have
6 large positions in both Comcast and Charter in
7 that respect. Again, very much driven by a good
8 market structure and scale flare that can sustain
9 their confidence in that structure.

10 I would like to also give you an example
11 of where valuation can drive investment decisions
12 we made in these portfolios to our clients over
13 time. And one was really around -- some of you
14 might remember around two, three years ago
15 Comcast was trying to buy Time Warner Cable,
16 which is another large cable provider in the New
17 York and LA areas and so forth. And the SEC and
18 the Department of Justice refused the deal. They
19 turned it down. And so the very next day, Time
20 Warner Cable, which was a listed stock at the
21 time, dropped nearly 15 percent.

22 Now, having understood intimately what
23 different players were trying to buy Tom Warner
24 Cable, we essentially knew the next day Time

1 Warner Cable was still for sale. And it was a
2 motivated seller. And another cable company
3 Charter was very interested in buying it. So, we
4 knew we had that going for us. And we also knew
5 from the valuation perspective, being able to
6 model and knowing Time Warner Cable very well,
7 that if a deal did happen that Time Warner Cable
8 was trading at a very attractive valuation.

9 Those are the situation where we felt
10 valuation helped our odds. If we were correct in
11 the Charter and Time Warner Cable would strike a
12 deal, you know, we can make a good amount of
13 money for our clients. If we were wrong and
14 nothing happened, we also felt that Time Warner
15 Cable was a pretty good stock in itself, was
16 organic story given it also had, you know, a real
17 good position in broadband in its regions.

18 Now in this case we got lucky in that a
19 deal did happen and Washington approved the deal
20 and so forth. But you know, that was an example
21 where I think, you know, if you have that
22 industry knowledge and you know the companies
23 over a long period of time, you can act fairly
24 fast to take advantage of opportunities that

1 might come. So -- and where valuation gave us
2 better odds. And in this case, gave us a good
3 outcome.

4 That's a little bit of flavor of how
5 I've been investing in the sector on behalf of
6 our clients.

7 MS. O'GANNON: I know we are running up
8 against that 20 minutes that you gave us or up to
9 the 20 minutes. Any questions for Andre? I know
10 that was a rather very brief highlighted view of
11 kind of his view of the world and how he invests
12 and how active management can really be
13 beneficial to generating returns here.

14 But any questions?

15 MR. DIFUSCO: None for me.

16 MS. JOHNSON: None for me.

17 MR. AMMATURO: I am going to assume you
18 didn't do the math. But if you -- any chance you
19 did the math on the performance fee and went back
20 and said it's average roughly X over the past
21 five, ten years?

22 MR. HUGGINS: It would have been
23 probably -- it depends on the time period. But
24 it would probably be between 30 and 40 basis

1 points depending upon the period.

2 MR. AMMATURO: Thank you.

3 MR. HUGGINS: And one other thing we did
4 look at, we looked at net of the fee with the
5 rolling outperformance would have been over time.
6 In over a rolling three-year period back to
7 inception, it was over 80 percent of the period.
8 We were outperformed on the net of these fee
9 basis. After the fees were taken out for the
10 client.

11 MR. AMMATURO: Thank you.

12 MS. O'GANNON: We appreciate the
13 opportunity to come in today. We hopefully
14 addressed everything appropriately and answered
15 your questions. To your fee question, Chris, if
16 that is the three years preferable, we have
17 flexibility there, too. Please keep us in mind.
18 And we are open to that dialogue. Hopefully, we
19 gave you a good flavor of the diversification
20 benefits of this portfolio and looking down deep
21 under the hood, how it really is truly active
22 bets taking place and, essentially, best ideas
23 are kind of getting into the portfolio through
24 these industry experts with a fee structure that

1 we believe is attractive for finance.

2 We appreciate the opportunity. If there
3 is any other follow up, feel free to reach out.

4 MR. DIFUSCO: Thank you.

5 - - -

6 (Brief break taken.)

7 - - -

8 MR. GOLDSMITH: Should we talk about it?

9 MR. DIFUSCO: Sure.

10 MR. GOLDSMITH: Obviously, I think the
11 fees are very important component of this. To
12 hear Pinebridge come in and lower by 20 percent
13 to 18 basis points, that is pretty significant
14 especially when you compare, I think, Wellington
15 is starting -- even on their performance-based
16 fees, they are starting at 10 basis points. So
17 without any -- then they are taking 25 percent of
18 your alpha on top of that. So to get all of your
19 alpha and pay 18 basis points is pretty -- that's
20 pretty significant. You saw they were well below
21 the other two managers.

22 You know, in terms of performance, the
23 two strategies were, I would say, largely
24 quantitative-model driven, rooted in fundamental

1 analysis. There was some technical. That's
2 momentum and investor sentiment. But largely
3 fundamental, analyzing the operating metrics of
4 these companies.

5 The last, Wellington, was obviously a
6 analyst-driven quantitative but no model
7 allowing -- and actually, truly hands off and
8 allowed the individual analyst to go out there
9 and build their own portfolio. They have the
10 best analysts out there. I think it was very
11 interesting with Andre, I think, presented. But
12 so, that's the difference in styles of the sort
13 of two on one side and then their fund on the
14 other.

15 I think, frankly, that last strategy is
16 a little concerning because then you have
17 independent portfolios that need to get pushed up
18 into one coherent strategy. Now when the data
19 that I think reflected that, their information
20 ratio came down pretty significantly. I think
21 there is another metric, the volatility itself I
22 think came down fairly significantly. But I
23 still have concerns about, you know, taking a
24 bunch of independent portfolios and trying to get

1 them all together into one.

2 Going back to your question, Bill, where
3 does active management have a role? I think the
4 returns streams for really all of these managers
5 is ideally what we are looking for. Slight
6 outperformance but regular outperformance.

7 Then when you couple that with the
8 Pinebridge fees, their quantitative model I liked
9 very much. It's been effective in managing both
10 risk. They keep the risk budget to 1 percent.
11 They showed that. You are only taking 1 percent
12 deviations. And you know, in terms of volatility
13 of overall strategy, volatility of their returns.
14 And then returns net of fees. They added --
15 they've done what they set out to do. I think
16 they -- their process to me or to us in general
17 is the most repeatable of the three. Most
18 consistent if people were to leave and take off.

19 Wellington, obviously, if there is a
20 group of partners gets unhappy with the firm,
21 there goes all of Wellington, you know. So, our
22 recommendation I think is to push for PineBridge.
23 I think at a -- we talk sort of an enhanced
24 index. They don't present it that way. But it's

1 interesting to note that within our research
2 group, we have noticed a lot more strategies like
3 that becoming more attractive. And I think it's
4 just the nature of the large cap space.

5 You have to get your emotion out of it.
6 You can't have analyst, I mean, frankly I
7 could -- this is just my own interpretation. But
8 I could see there being a lot of emotion invested
9 on the Wellington side of things when you have
10 analysts that knows CEOs personally, and then
11 they live in one sector and one sector only.

12 One minor point but one last thing, I
13 will differentiate. Pinebridge made a point to
14 note that they look at all sectors relative to
15 each other; whereas, the other two funds noted
16 that they look at sectors within each other
17 exclusively. And I think that, you know, it
18 is -- I understand that you can't compare, you
19 know, growth metrics of, you know, very different
20 industry to another. But from an attractiveness
21 standpoint, I think what PineBridge would seem to
22 be doing is roll everything up into a general
23 attractiveness and not let -- oh, that's a
24 financials company that operates very differently

1 from an IT company cloud their view of whether
2 something should go in the portfolio or not.

3 I think, ultimately, they have a model
4 that brings most attractive companies in.

5 MR. RUBIN: More importantly to me, I am
6 trying to figure out the understanding of the
7 other two firms would have to make 17 basis
8 points above what Pinebridge would basing it on
9 the fact that they are at 18, so.

10 MR. DIFUSCO: At least.

11 MS. JOHNSON: At minimum.

12 MR. RUBIN: That are already starting at
13 the whole compared to them.

14 MR. GOLDSMITH: That compounds itself,
15 too.

16 MR. RUBIN: The margins that you have to
17 look at within large cap versus what you are
18 looking for are already tight. And you have just
19 made it that much --

20 MR. DIFUSCO: Yeah. You have doubled it
21 and tripled it with two others.

22 MR. RUBIN: Am I going to see a return
23 from those other two firms that is going to make
24 up that 17 or 18-plus on top of that --

1 MR. DIFUSCO: That is what they are
2 asking.

3 MR. RUBIN: -- to make it more
4 attractive.

5 MR. DIFUSCO: Sorry. Didn't mean to
6 interrupt.

7 MR. RUBIN: That's all right.

8 MR. DIFUSCO: That is what they are
9 asking you to believe essentially. But as we
10 know, you have been doing this for a long time,
11 too, as Rasheia in variety of context with these
12 guys. It's like starting a race 10 or 18 yards
13 behind as opposed to 50 yards behind or 60 yards
14 behind. Especially as you suggest, when you are
15 dealing with companies that are very well
16 researched, Facebook, Google, whatever these --
17 you know, Verizon these real well -- hard enough
18 to get information in. Yeah, doubling or
19 tripling your fee is a significant consideration.

20 MR. RUBIN: So then, if it comes down to
21 do we believe that they can manage the money at
22 17 or 18 -- or 18, I guess, is what they are
23 proposing in a way that they are going to beat
24 the benchmark and give us a value? Or do we

1 think that is really not just an accurate
2 portrayal of what they are going to do? They are
3 way out of bounds.

4 MR. DIFUSCO: I would say they have done
5 it consistently for over a decade. And having
6 that small of a spread gives them the best chance
7 to do it. I also think to kind of reiterate
8 Marc's point earlier, I think as probably the
9 next meeting or subsequent meeting, once the
10 contract -- assuming we move forward with
11 Pinebridge -- was further along, we would not
12 necessarily advocate giving them a full 70 or
13 75 million.

14 MR. RUBIN: Which they said didn't
15 matter.

16 MR. DIFUSCO: Correct. So I think
17 keeping a reasonable allocation, a smaller but a
18 reasonable allocation of active even in large cap
19 is acceptable, as you know from the union fund,
20 we do that. We have trimmed overwhelming number
21 of large cap managers, but we still have one or
22 two that we believe can provide some alpha. So,
23 we do something more akin to what Marc was
24 suggesting, an 80/20 split or a 75/25 split. And

1 on an 18 basis point fee given their track record
2 and their process, yes, I think it's reasonable
3 to believe that they can generate alpha over
4 market cycles over longer periods of time.

5 MR. RUBIN: Why do you on the -- I think
6 that's -- seemed like it was layup. I am just
7 trying to figure out --

8 MR. DIFUSCO: You should ask all the
9 questions.

10 MR. RUBIN: Why would you bring in your
11 analyst in one sector to present when we're
12 looking at a global fund and not give us the
13 total overview? Is that -- I don't get the
14 theory.

15 MS. JOHNSON: Before you answer, just to
16 tag onto that, the one fund and not even give the
17 thought process of the structure of how they --
18 look, he just kind of focused on what he does
19 which was concerning.

20 MR. DIFUSCO: I agree with that.

21 MR. GOLDSMITH: How does that scale
22 down? That's why I was asking -- they are not
23 included in your fund only. What happens when
24 you scale that into the -- I thought they were

1 doing that as an example of this is -- we have
2 the best analyst. And I thought it was
3 interesting. It didn't mean a whole lot to me.

4 MR. RUBIN: Interesting is fine why they
5 do what they do. I just didn't know why --

6 MR. GOLDSMITH: I think that's what it
7 is. They probably could have given us a little
8 more confidence around the actual construction of
9 how all of those --

10 MR. DIFUSCO: I think I agree. That is
11 what they were trying to do. Don't know that it
12 came across --

13 MR. RUBIN: This calibre of person we
14 have. This --

15 MR. DIFUSCO: Correct. This is how he
16 or she decides what they are going to put in. I
17 don't know how that was -- how it came across.

18 MR. GOLDSMITH: I think they said 18
19 analysts that actually manage portfolios or so.
20 That's 18 point of views. You even saw it in the
21 book, you had to -- I like to look at --

22 MS. JOHNSON: Right.

23 MR. GOLDSMITH: Forget the metrics if he
24 noted free cash flow or someone else noted the

1 beverage analyst talk about branding and things.
2 I understand that that -- those dynamics, I don't
3 know -- frankly, branding could be important in
4 telecomm. I don't know enough.

5 MR. RUBIN: Get in those meetings with
6 all of those really smart people and all their
7 things, they want their idea to be the one that
8 flows to the top.

9 MR. GOLDSMITH: Yeah. You can have
10 butting heads, you know. I think that they do
11 get superior access. It's a good model to have
12 your analysts be like that I think. But you need
13 to have some centralized structure, I think.
14 Whether it's a model or -- I didn't get the
15 impression that they have a very robust,
16 especially not as much Glenmede or Pinebridge
17 quantitative model quantifying these quantitative
18 elements.

19 MR. AMMATURO: I assume in portfolio
20 construction for these guys, when they get in the
21 room and they all say they want their stock, they
22 are looking at the weight of the index and saying
23 we need to be pretty close to this weight in the
24 index. It's not a food fight of who is going to

1 get their stock in and who is not. They want the
2 alpha to be driven by stock selection.

3 MR. GOLDSMITH: Yeah.

4 MR. AMMATURO: They mentioned that
5 pretty sure. Set their allocation. It's not
6 going to turn into a food fight, if that makes
7 sense.

8 MR. RUBIN: The last thing is PineBridge
9 is not local and Glenmede is. So, we run into
10 the question of their expenses on the back side
11 that get added in that aren't in the fees. So
12 when they travel to go to us and all those other
13 things, does that change the dynamic of that 18?

14 MR. DIFUSCO: Still 18.

15 MR. RUBIN: All of that is included?

16 MR. DIFUSCO: They eat that. That is
17 part of their business model. It's 18 all in.

18 MR. RUBIN: We visit if they don't,
19 right?

20 MR. DIFUSCO: Not too many that I'm
21 aware of -- maybe an alternative occasionally,
22 alternatives, and not even all of them.
23 Although, it does happen. But not in publicly
24 traded equities or fixed income.

1 MR. GOLDSMITH: Their acquisition costs
2 or if they are --

3 MR. DIFUSCO: There will be something
4 built in the model. But not -- not for publicly
5 traded domestic large cap, no.

6 MR. RUBIN: You're chairing the meeting.

7 MS. JOHNSON: That's right.

8 (Laughter)

9 MS. JOHNSON: I guess I should make a
10 motion to select PineBridge -- entertain a motion
11 for -- to select PineBridge.

12 MR. RUBIN: I make motion that we select
13 PineBridge for the allocation and the amount of
14 the allocation to be determined later once we sit
15 down and go through the model.

16 MS. JOHNSON: I second it.

17 All in favor.

18 (Ayes.)

19 MR. DIFUSCO: Thank you.

20 MR. RUBIN: Anything else you need from
21 us?

22 MR. DIFUSCO: I mean, we did -- in terms
23 of the performance, we don't necessarily need --
24 I mean, ladies and gentlemen know what that is.

1 We are happy to entertain questions. We did have
2 a couple things in terms of rebalancing the next
3 Agenda item that would require a vote or some
4 discussion.

5 MR. GOLDSMITH: I am actually noticing
6 the Logan Circle Memo was not in here. Was that
7 by design?

8 MR. DIFUSCO: No.

9 MR. GOLDSMITH: We don't have -- I don't
10 know if their contract is done yet. I actually
11 may have a copy we can pass around. It's a
12 little bit late. I don't know your thoughts on
13 that.

14 MR. DIFUSCO: If you want to just do --
15 we can wait on that.

16 MR. GOLDSMITH: The -- it's reflected in
17 the reval. Very quickly, the first memo we have
18 here is about the RhumbLine International
19 developed equity partner. This is the initial
20 funding recommendations tab.

21 This RhumbLine was approved, I believe
22 almost about a year ago, I want to say I think.
23 At the time, there was no passive exposure in
24 international equities. I believe there is still

1 no passive exposure. The international indices
2 were passive funds are a little more expensive
3 than domestic passive funds, but not a lot.
4 Still well below where their active counterparts
5 fall. I think it was covered in sort of our
6 on-boarding of you all as a client.

7 Chris, I think, asked us if we thought
8 that international was a space for passive
9 management. We agreed. The approvals was made.
10 And RhumbLine has been sitting on the sidelines
11 waiting to be funded.

12 Our rationale in funding, we recommend, I
13 believe, \$23 million, about 4.5 percent of the
14 total plan. What that does is it lowers the
15 effective fees overall going from, you know,
16 active management in the top of my head, can't
17 recall. But typically, you know, 70 to 90 basis
18 point range for international to, you know,
19 sub-10 basis points.

20 It was one rationale would eliminates
21 the risk that our actives underperformed. And I
22 think the active managers have done well over the
23 last several quarters relatively. But over long
24 periods of time, you can think of developed

1 international similar to large cap in that these
2 are the largest, biggest you know companies in
3 Germany, France, UK, you know, Japan where
4 there's been a lot of coverage for a long time.
5 It's a space where indexing, to some extent, can
6 make sense.

7 And lastly, this has no emerging
8 markets. This is developed only. Because of the
9 dedicated emerging markets fund in dimensional,
10 this plan has an overweight to emerging markets.
11 The plan benchmark -- the benchmark component for
12 international equity is about 21 percent. I
13 believe right now the plan is approximately
14 26 percent emerging markets. So you know,
15 5 percent difference by, you know, funding.
16 Reporting to the proposal we made, which is, you
17 know, 4.5 percent and then taking the bulk of
18 those assets from Mondrian, DFA. It brings you
19 about to a 23, 22 percent emerging markets. So,
20 just slightly overweight relative to the
21 benchmark.

22 MR. AMMATURO: Numbers are on the
23 subsequent -- behind the memo just in case you
24 haven't seen.

1 MR. GOLDSMITH: Yeah. You can see --

2 MR. RUBIN: What's the outlook for
3 emerging markets?

4 MR. GOLDSMITH: I think if you had asked
5 about -- well, going back several years, our
6 outlook was negative. There was a lot of
7 challenges, frankly, mostly coming to falling
8 commodity prices, not just energy, middle --
9 minerals, metals both precious, industrial. And
10 emerging companies guards most of their income or
11 GDP growth from resource-related investments or
12 industries. And frankly, over the last, I guess
13 now being four years, emerging markets have
14 struggled as the commodity index has struggled,
15 as well.

16 There are some other issues, as well.
17 Geopolitical. And I think following the election
18 of Donald Trump who, at face value, I think some
19 of his policies would go better for developed
20 economies relative to emerging. I think we would
21 tend to agree, that being said, emerging markets
22 remained undervalued owing to the last four years
23 or so. They have done very well to start this
24 year. We actually recommended to Chris, I

1 believe you made the action, to trim emerging
2 markets to fund the month of -- this month's
3 benefit payments.

4 Emerging markets are up something like
5 13 percent to start the year. Whereas, developed
6 economies are up 7 percent. So again, you know,
7 over the -- the vast long term emerging, we
8 suspect significant growth from emerging markets.
9 Where we are right now, they are little
10 undervalue, but there are some headwinds. We are
11 at benchmark weight at our discretionary
12 accounts.

13 MR. RUBIN: Take chips off the table.

14 MR. AMMATURO: Yeah. I mean --

15 MR. GOLDSMITH: Yes. Yes.

16 MR. AMMATURO: The extent of your
17 overweight isn't warranted, in our opinion, at
18 this time. An overweight position is warranted.
19 But the extent of your overweight is fairly out
20 there in terms of relative to benchmark, which is
21 what Alex just verbalized. If you aggregate all
22 your international equity managers, again, your
23 overweights are emerging was significantly above
24 the target or the benchmark. This move will

1 bring you -- still be overweight in the emerging
2 markets, but just not to the same extent.

3 MR. GOLDSMITH: Actually, I think even
4 when taking into account the rebalancing for the
5 cash raise, that took it even lower. And so if
6 you make this move, would be about 22 or even
7 21 percent right on top of the benchmark.

8 MR. RUBIN: That's an actionable item
9 that we need?

10 MR. GOLDSMITH: We are making the
11 recommendation that, yes, you do. Again, it will
12 lower effective fees, reduce underperformance
13 risks and bring you flat with emerging markets.
14 We are making that recommendation.

15 MS. JOHNSON: It's in line, you said,
16 with our target or slightly above?

17 MR. GOLDSMITH: Before the cash -- the
18 rebalancing, it was slightly above. I think you
19 took, what, 2.2 million or so from the DFA. I
20 actually think right now -- I can redo the math.
21 But I believe it's right on top of the target for
22 emerging markets.

23 MS. JOHNSON: Okay.

24 MR. GOLDSMITH: Has the added benefit

1 also, you know, it makes sense to have a passive
2 international fund in here. We can dial up or
3 down those allocations based on market
4 conditions.

5 MR. AMMATURO: From your point is,
6 you're layering in 20 percent roughly allocation
7 within your international manager. You had zero.
8 Now it's going to go up to 20 percent of
9 international dollars going to be passive,
10 80 percent is still active. We can do that going
11 forward.

12 MR. RUBIN: I would make a motion to
13 accept their recommendation and adjust it
14 accordingly.

15 MS. JOHNSON: Second.

16 All in favor?

17 (Ayes.)

18 MR. DIFUSCO: We will defer the Logan
19 discussions since the contract is almost done,
20 but not quite.

21 MS. JOHNSON: Okay.

22 MR. RUBIN: You don't want to do it on a
23 contingent of the contract being done?

24 MR. DIFUSCO: No. We have a memo and

1 some other stuff. I would rather have folks have
2 a chance to review that.

3 MR. RUBIN: To table that?

4 MR. DIFUSCO: No. No. Just defer it,
5 and I will put it back on the Agenda.

6 And I think the last item we can go over
7 this as much or at list based on time constraints
8 is the third quarter or the first quarter
9 performance of the plan. The April numbers will
10 be out within literally the next day or so. You
11 will get email about that.

12 MR. RUBIN: Basically, it's off the
13 charts. We are doing really well. Great picking
14 by the group. And we are going to make a lot of
15 money going forward?

16 MR. AMMATURO: That's accurate.

17 Meeting adjourned.

18 MR. DIFUSCO: The first quarter, there
19 has been 50 basis point outperformance, roughly
20 4.91.

21 MR. GOLDSMITH: On net basis.

22 MR. RUBIN: Say that again?

23 MR. DIFUSCO: About 50 basis points of
24 the outperformance, 4.91 to 4.43. All the

1 managers or all the asset classes as a whole have
2 outperformed their benchmark with the exception
3 of fixed income, which is only 3 basis points
4 behind the target. They are essentially even.
5 You know, large caps, small cap and equity all
6 significant, net of fee outperformance first
7 quarter.

8 Our fiscal year-to-date, which is
9 obviously different than the City's 6.16 percent
10 net of fee, fiscal year-to-date performance.
11 That really is solid performance over one through
12 five, seven and ten-year periods. I don't have
13 if you have specific manager questions, or I
14 don't want to steal your thunder. I want to be
15 respectful of their time.

16 MR. RUBIN: The idea is O'Shaughnessy
17 and Fred Alger will be moving on?

18 MR. DIFUSCO: Correct.

19 MR. RUBIN: We are going to shift the
20 money over to Pinebridge?

21 MR. DIFUSCO: Slash passive, which we
22 will discuss in the next meeting.

23 MR. RUBIN: One manager, lower the
24 overall allocation to active manager?

1 MR. DIFUSCO: Correct.

2 MR. RUBIN: And then move from there?

3 MR. DIFUSCO: Yes.

4 MR. RUBIN: I didn't see any other
5 managers that had red lights or issues.

6 MR. GOLDSMITH: I do not believe that
7 any other managers are on watch list.

8 MR. DIFUSCO: That's it.

9 MR. RUBIN: Have they been notified?

10 MR. DIFUSCO: They weren't aware -- I'm
11 not going to tell them they get terminated until
12 the folks here make that -- you know.

13 MR. RUBIN: They weren't invited.

14 MR. DIFUSCO: They are aware. We have
15 had discussions with them about -- they read the
16 financial regs and stuff. They certainly call
17 and been aware that we were going to be
18 discussing a core strategy and that would
19 eliminate their --

20 MS. JOHNSON: They --

21 MR. DIFUSCO: I don't think it will be a
22 total shock later today or tomorrow when told,
23 look, in the next two or three months you are
24 going to be moving on. It will not be -- it

1 should not be surprise to either of them.

2 MS. JOHNSON: Okay.

3 MR. RUBIN: There is a discussion about
4 extra money coming into PGW. So, is there also
5 discussion of that money being put towards the
6 Pension Fund? Or is that all in the operations?

7 MR. DIFUSCO: I'm not aware of this
8 discussion, so I would assume it's operations
9 side for now. And I'll certainly bring that to
10 the Commission's attention if and when I'm
11 informed that extra money may be flowing in.
12 That's the first I've heard of it.

13 MS. JOHNSON: Motion to adjourn?

14 MR. RUBIN: Motion to adjourn.

15 (Meeting adjourned at 12:28 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.

ANGELA M. KING, RPR
Court Reporter - Notary Public

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Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 1

A	48:10 83:21	agenda 19:14	105:13,14	69:20 71:14	annual 61:19	area 7:8,18	60:9 65:20
a.m 1:17	84:1 92:12	63:4 67:7	112:6	72:24 74:11	annualized	43:24 46:17	80:20 81:4
abide 41:14	93:21 96:3	106:3 113:5	114:24	74:17 75:6	25:24 75:11	areas 90:17	91:8 94:1
able 10:19	100:18	agendas	allocations	76:2 77:15	answer 9:11	argue 59:21	97:3 98:4
33:2 53:19	107:4,16,22	67:20	112:3	78:2,21	41:10 46:10	asked 10:24	99:4
68:15,20	112:10	aggregate 6:5	allot 4:2	79:9 95:8	101:15	47:6,20	attractiveness...
69:14 91:5	114:24	22:10 25:7	allow 8:23	97:6 101:11	answered	59:8 107:7	20:7 97:20
absence 3:4	actively 27:21	25:8,9	70:23	102:2 103:1	93:14	109:4	97:23
absolute	actives	110:21	allowed 95:8	analyst-dri...	anymore	asking 99:2,9	attributes
37:17	107:21	agnostic	allowing 95:7	95:6	60:18 84:16	101:22	57:11 65:21
Absolutely	activity 58:6	52:24 62:19	Allows 70:23	analysts	anyway 29:3	aspects 18:21	AUM 44:3
40:21 42:14	86:18 89:6	ago 3:19 7:19	alluded 6:13	18:11 24:10	apparent	assess 52:2	available
43:7	actual 24:14	43:15 48:2	alpha 59:11	46:21 47:10	88:8	asset 2:9,10	44:9
academic	24:15 55:11	55:12,16,16	62:5 68:11	48:9,10	apparently	3:18 12:23	average 50:7
18:7	55:13 57:10	55:17 63:23	80:14,17	49:7,24	64:6	45:18 67:17	54:12,16
accept 112:13	73:24 102:8	86:21 87:23	94:18,19	51:19 52:3	Apple 53:11	114:1	55:21 56:1
acceptable	add 9:20	90:14	100:22	52:8 56:19	53:15,16,16	assets 4:14,14	79:8 92:20
100:19	16:17,19	106:22	101:3 104:2	63:19 67:1	53:18,20,22	12:24 45:11	Averill 76:8
access 103:11	62:5 73:8	agree 101:20	alternative	68:5 71:5	53:23 59:24	45:18,21	avoid 31:22
accompany	added 9:13	102:10	104:21	75:21 78:6	76:9	67:19,22	34:8
58:5	96:14	109:21	alternatives	79:13,18,22	applied 15:2	74:13	avoided
account	104:11	agreed 107:9	104:22	83:8,10	applies 19:22	108:18	36:10
111:4	111:24	ahead 54:20	Amazon 60:1	95:10 97:10	apply 19:24	assign 21:8	aware 9:9
accounts 8:9	adding 8:11	81:9 82:10	61:3	102:19	27:8 57:15	assigning	104:21
110:12	addition	akin 34:5	amenable	103:12	117:16	20:3	115:10,14
accurate 52:3	46:22	100:23	32:17	analytical	appreciate	assignment	115:17
100:1	address 9:15	Alex 2:9 4:3	Ammaturo	47:14 65:5	93:12 94:2	74:3	116:7
113:16	53:8	4:15 10:23	2:10 6:1	analytics	approach	ASSOCIA...	Ayes 3:10
accurately	addressed	45:22 48:2	9:23 29:8	27:23	4:21 20:3	1:20	105:18
117:5	93:14	110:21	30:17 31:5	analyze 71:23	20:12,17	assume 41:6	112:17
achieved 23:6	Adidas 71:4	Alex' 6:16	41:4,19	analyzed	43:2 48:20	41:15 92:17	
achieving	adjourn	Alger 3:24	42:2 45:3	20:21	70:15 71:15	103:19	B
23:4	116:13,14	4:11 6:3	46:11 63:8	analyzing	78:17	116:8	B 27:12
acquisition	adjourned	10:4,13	92:17 93:2	69:11 76:3	approaching	assuming	back 5:8 6:14
105:1	113:17	114:17	93:11	95:3	53:17	6:12 12:17	14:19 16:10
act 91:23	116:15	Ali 12:12	103:19	Ancestry.co...	appropriate	54:21 66:11	17:4 37:4
acted 55:16	adjust 38:10	21:17 28:16	104:4	42:12	64:12	73:6 100:10	37:23 38:21
acting 2:4	63:19	28:19 31:9	108:22	and/or	appropriat...	AT&T 84:20	49:4 51:10
64:16,17	112:13	31:14,24	110:14,16	117:18	93:14	86:22 87:4	55:10,18
action 21:15	adjusted	32:13 33:5	112:5	Andre 66:22	approval 3:4	87:9,14	58:7 86:20
63:18,20	80:15	33:16 34:13	113:16	68:3,24	approvals	88:3,17	87:1 90:4
110:1	advantage	34:18,22	amount 9:16	69:10,18	107:9	AT&T's 87:3	92:19 93:6
actionable	8:20 91:24	35:23 38:6	13:6 41:7	70:22 71:10	approve 3:6	attention	96:2 104:10
111:8	advisor 12:11	align 68:16	89:23 91:12	74:16 75:19	approved	15:19 19:20	109:5 113:5
active 6:17	Advisors 47:4	83:17	105:13	76:4 77:17	3:19 91:19	26:18	background
8:15 9:12	advisory 19:1	aligned 68:19	analysis	78:3 79:3	106:21	116:10	43:16 48:3
9:16,22	advocate	aligns 70:1	16:16 28:12	79:12 83:9	approximat...	attract 68:22	backs 90:5
10:4 11:1	100:12	allocation	39:24 47:3	84:7 92:9	1:16 17:17	attractive	backward
27:11,16	affect 33:15	3:18 4:24	48:6 95:1	95:11	21:8 54:22	21:22 25:11	22:9
32:1 33:17	33:15,16,17	9:19 72:5,6	analyst 49:11	Angela 1:13	108:13	25:16,22	balance 58:6
33:18,19,21	33:22	72:19 77:13	49:11 51:23	117:11	April 113:9	26:1,3,6,8	balanced
33:23 35:16	AGENCY	100:17,18	56:6 66:24	Anik 19:7	architect	49:13 53:11	55:24 78:14
35:17 36:2	1:21	104:5	68:3,5	Ann 77:5	43:14	53:23 56:20	Bank 47:2
							bankruptcy

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 2

58:14 Banks 71:23 bar 55:3,8 barometer 38:11 bars 55:1 80:12,13 base 53:4 83:23 89:20 based 10:17 21:11 24:17 25:19 30:5 32:20 47:12 47:21 50:9 50:21 66:12 83:11 88:19 112:3 113:7 basically 49:8 57:7 73:4 87:5,23 89:9 113:12 basing 98:8 basis 4:10,11 4:13 5:5 14:21 26:14 27:7,14 39:12,16,22 41:5 48:14 49:2 50:9 52:19 54:14 54:15,17,17 54:18,19,22 54:24 55:5 58:1 64:23 77:24 80:23 81:19 82:2 82:3,4 85:21 92:24 93:9 94:13 94:16,19 98:7 101:1 107:17,19 113:19,21 113:23 114:3 bat 14:2,17 batting 54:11 54:15 battle 61:3 bearish 24:8 beat 34:12 77:20 82:23 83:1 99:23	beaten 60:9 beating 35:11 37:15 56:16 becoming 97:3 beginning 67:14 68:24 behalf 74:13 92:5 behavior 51:22 52:7 62:1 belief 8:4 believe 4:8,8 9:5,21 14:19 30:14 48:22 70:10 94:1 99:9 99:21 100:22 101:3 106:21,24 107:13 108:13 110:1 111:21 115:6 believes 30:13 48:23 69:24 bench 33:8 benchmark 7:24,24 26:12 27:12 27:13,18 29:20,22 31:11 32:5 33:5,6,19 33:20 34:1 34:4 35:10 36:6 37:13 37:14 52:18 52:22,23 55:13 57:1 59:23,23 60:5,7 61:11 62:9 62:19 77:16 77:20 78:4 79:11 83:12 89:2 99:24 108:11,11 108:21	110:11,20 110:24 111:7 114:2 benchmarks 78:7 beneath 77:10 beneficial 92:13 benefit 5:5 110:3 111:24 benefits 10:19 11:1 18:24 93:20 best 16:19 25:14 51:6 51:8 65:10 69:15 70:10 71:7 72:24 79:11,23 93:22 95:10 100:6 102:2 beta 15:23 57:18 bets 60:4 93:22 better 5:6 36:15 47:20 58:20 60:23 65:20 75:6 85:23 92:2 109:19 beverage 103:1 beyond 14:23 bias 77:4 biases 57:1 62:17 bidder 7:1 big 39:9 86:16 88:17 89:1 bigger 78:4 85:8 biggest 64:2 73:13 108:2 Bill 2:5 10:21 96:2 billion 12:23 44:2,5,13 44:14 45:4 45:12,13,14	45:17,21 46:7,8 biotech 57:21 74:17 75:3 bit 13:2 14:13 15:1,3,7 16:9 17:7 34:19 41:22 69:3 70:3 70:18,20 76:5 82:19 84:7,22 92:4 106:12 blue 73:3,8 73:14 blunt 71:22 board 13:1 13:20 19:12 40:11 book 3:12 17:23 24:23 102:21 bottom 22:8 59:6 60:24 bottom-up 50:22 bottoms 15:4 16:18 bought 53:10 bounds 100:3 box 69:7 brad 66:20 69:17 70:3 84:16 Branch 66:2 branding 103:1,3 breadth 70:24 break 12:24 42:19 66:15 94:6 breaks 76:16 breath 24:20 brick-and-... 61:4 brief 12:21 42:19 43:16 66:15 67:8 67:16 92:10 94:6 briefly 6:2 bring 13:12	21:16 69:19 77:7 86:14 87:24 101:10 111:1,13 116:9 brings 98:4 108:18 broad 74:1 84:6 89:9 broadband 86:19 89:8 89:10,11 90:1 91:17 broadbands 89:19 broader 17:19,24 40:19 69:12 brought 4:1 10:21 budget 14:24 96:10 build 95:9 build-in 82:18 building 43:18 75:17 built 21:24 105:4 bulk 43:1,4 45:1 108:17 bullish 24:8 bumped 3:17 bunch 95:24 business 43:9 44:16 56:2 66:19 85:7 87:15 104:17 butting 103:10 buy 29:10,11 53:19 57:14 57:23 62:15 62:16 65:4 65:15 77:20 77:21 90:5 90:15,23 buying 71:3 91:3 buys 64:20	C 2:1 117:1,1 cable 89:7,14 90:15,16,20 90:24 91:1 91:2,6,7,11 91:15 calendar 15:11 calibre 102:13 call 3:3 23:24 51:14 75:21 115:16 calls 9:7 11:23 cap 3:12,22 5:11 6:8,17 7:8,11,23 8:2,2,4,8,15 9:10,13,22 10:6 11:2 29:21 37:1 37:6 38:3,4 38:8,16 39:3 43:12 44:13 60:5 62:10 67:2 71:6 73:23 74:4 80:10 80:11 97:4 98:17 100:18,21 105:5 108:1 114:5 cap/small 7:22 capital 47:16 77:13,19 78:5,20 85:10 capitalize 75:16 caps 8:5,11 8:12 114:5 capture 36:3 care 62:3 career 47:1 68:5,6,8 71:9,13 carrier 87:24 carriers 88:1 carrot 68:22 carryover	56:12 case 64:10 91:18 92:2 108:23 cash 49:18 56:20 57:3 58:6 61:13 85:10,20 90:2,3 102:24 111:5,17 categories 20:5,8 21:2 22:13,20 24:24 26:5 27:7,20 34:21 categorizati... 17:5 20:3 21:19 22:3 22:6 23:19 25:20 26:21 38:24 categorize 22:13 23:16 27:5 29:23 category 21:9 24:17,22 25:4,5,12 25:15,18 cause 1:13 caused 63:16 caveat 63:22 CDMA 87:2 Center 1:15 central 73:22 centralized 103:13 CEO's 40:22 CEOs 74:21 97:10 certain 32:15 76:16 82:7 87:18 89:23 certainly 9:17 44:1 115:16 116:9 certification 117:15 certify 117:3 certifying 117:19 cetera 9:21	CFAs 46:15 CFOs 74:21 Chair 2:4 chairing 105:6 Chairman 3:4 challenges 109:7 challenging 58:23 75:1 chance 92:18 100:6 113:2 change 33:1 41:8 54:12 104:13 changed 88:6 changes 51:24 65:19 65:21 75:15 characteris... 12:5 28:7 32:20 56:23 charging 4:11 4:12 charitable 46:5,8 chart 21:1 73:2,4,9,9 73:14,14,17 Charter 89:15 90:6 91:3,11 charts 37:8 113:13 cheap 57:3 60:18 61:11 cheaper 62:6 cheapness 24:12 57:11 checked 46:22 chips 110:13 choose 11:5,5 Chris 6:13 11:24 40:4 41:11 67:4 93:15 107:7 109:24 Chris' 6:2 Christopher 2:8 chronological
---	---	---	---	---	--	---	--

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 3

45:8 CIO 2:8 47:5 47:17 Circle 106:6 circling 14:11 Cisco 76:10 City 1:1 2:11 40:18 66:13 City's 114:9 clarification 44:23 Clarifications 63:5 classes 114:1 classify 29:19 Clearly 74:24 client 12:11 14:2 46:5 67:19 89:1 93:10 107:6 clients 9:4 13:7,19,20 68:11,16,20 69:15 70:1 74:14 82:19 83:17 84:18 85:2 86:8 89:3 90:12 91:13 92:6 close 22:2 27:17 32:19 34:3 53:14 103:23 closer 11:7 closing 66:9 cloud 98:1 cluster 25:9,9 clusters 24:1 CNBC 31:23 Co-Portfolio 12:13 co-the 43:11 cognisant 30:1,23 coherence 5:16 coherent 95:18 cohesively 18:19 cohesiveness 13:14 collaboration	14:3 17:20 69:24 collaborativ... 19:19 collage 21:11 22:7 collection 20:6 70:12 combination 50:5 55:18 58:18 combined 46:15 Comcast 84:21 89:14 89:15 90:6 90:15 come 38:9 39:19 46:20 47:6 50:3 59:11 62:14 62:15 68:1 73:17 92:1 93:13 94:12 comes 40:22 62:14,15 64:16 69:4 69:8 70:21 75:12 99:20 coming 5:5 23:10 34:9 36:20 40:3 42:22 49:23 78:9 109:7 116:4 commencing 1:16 comment 45:22 comments 4:4 4:16 6:3 63:5 67:8 Commission 1:2,11 2:3 Commissio... 116:10 Commissio... 42:23 Commissio... 3:19 committed 44:15 committee's	8:7 commodity 109:8,14 communica... 28:2 companies 16:12 20:20 22:13,15,17 22:19,23 23:4,6,20 25:2 35:14 51:16 56:15 58:8 69:11 71:24 74:22 75:4 76:3,9 76:12 84:20 85:21,24 86:22 87:17 87:20 88:17 89:7,14,16 91:22 95:4 98:4 99:15 108:2 109:10 company 16:19,22,23 17:1,2 20:4 23:12,14,18 25:13 43:23 43:24 44:2 49:12 52:4 55:12 56:17 57:20,21 62:3 71:2 85:4 91:2 97:24 98:1 comparable 83:24 compare 94:14 97:18 compared 16:22 98:13 comparing 49:19 comparison 80:9 compensated 82:1 83:10 compensati... 83:16 competing 67:20 competition	87:19 competitive 38:15 85:4 86:16 88:15 competitors 37:16 85:11 85:13 complemen... 13:17 completely 31:11 65:13 complex 16:8 65:8 component 86:13 94:11 108:11 components 52:11 composite 61:21 compounds 98:14 compresses 88:14 computed 30:7 computer 48:4,24 concentrated 79:14 concern 31:10 concerning 95:16 101:19 concerns 95:23 conditions 112:4 Conference 1:15 confidence 90:9 102:8 confirm 38:18 confirmation 56:8 connectivity 89:8 consensus 52:6 consideration 30:18 31:7	99:19 consistency 15:10 37:22 39:4 54:9 consistent 20:12 23:7 32:7 48:1 54:3 58:5,9 62:22 80:24 96:18 consistently 15:11 35:7 35:11 61:11 70:9 100:5 consists 19:2 46:14 consolidate 72:7 constantly 27:24 constituents 55:13 constraints 26:12 27:8 27:13 34:3 65:9 113:7 construct 26:11 construction 20:10 21:24 26:24 29:9 102:8 103:20 consumer 49:19 60:20 60:22 consumers 87:17 88:5 89:12 contained 117:5 context 20:22 71:8 72:7 99:11 contingent 112:23 continual 48:12 continue 13:24 87:21 contract 100:10 106:10	112:19,23 contracted 11:8 contrarian 72:10 contrast 76:19 contributed 62:21 control 44:5 50:11 60:6 117:18 controlled 27:18 86:23 conventional 8:16 conversation 19:14 41:22 conversations 40:23 coop 46:19 copy 106:11 core 3:12,23 4:21,24 5:2 8:13 14:1 35:8 37:7 37:21 38:4 38:8,16 39:3 44:13 48:17 65:12 67:23 72:7 72:12 77:9 89:10 115:18 Corestates 47:2,4 corner 15:19 76:7 79:19 Coron 43:7,8 45:6 46:12 54:20 55:6 62:23 63:2 66:9 correct 29:6 30:20 55:6 88:24 91:10 100:16 102:15 114:18 115:1 117:8 cost 85:7 88:2 costs 85:9 105:1	count 86:12 counteract 5:18 counterintu... 81:23 counterparts 107:4 couple 4:16 14:15 29:16 46:21 47:17 69:10 70:14 71:21 81:11 96:7 106:2 course 33:24 Court 1:13 1:18,21 117:12 courtship 59:1 coverage 70:24 74:3 74:3 87:8 87:11 108:4 covered 26:20 107:5 covers 76:8,9 76:21 77:17 crawl 83:2 create 24:20 54:2 55:19 56:24 57:5 57:9 61:6 61:10 creates 27:2 89:19,20 creating 26:24 credit 11:3 criteria 23:23 24:1,3,15 24:19,21 47:22 50:4 50:6 51:7 51:11 55:19 critical 35:8 38:24 crossed 45:21 crystalized 81:17 culture 13:9 customer 87:2,5 89:20	customers 89:17 customizati... 24:18 customized 50:2 cut 39:15,21 41:3 cutoff 22:12 cycle 17:4 20:2,5,23 23:21 24:17 26:21 27:6 29:24 38:24 60:10,22,23 cycles 50:10 54:4 81:13 101:4 cyclical 21:4 21:5 22:22 23:3,5,13 23:13,15,17 25:4,15 cyclicity 21:12 22:24 23:9
D							
daily 18:20 27:4 Darrell 64:3 data 25:19 48:23 50:9 55:10,11 58:19 64:11 95:18 date 1:16 dates 58:7 Dave 65:11 David 42:7 day 64:1 87:1 90:19,24 113:10 day-to-day 18:15 26:14 days 58:8 DB 46:2 DC 46:2 de 1:24 46:13 54:14 55:2 55:7 63:1 63:11 deal 90:18 91:7,12,19							

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 4

dealing 99:15	depends 92:23	24:16 36:1	diligence 9:9	27:2 54:1	drives 16:24	53:5	enhanced
debate 39:9	92:23	49:12,22	11:23	71:12 78:22	78:10	effort 18:12	12:14 53:2
debt 58:11,13	depicted 17:22	50:3,20	dimensional	diversify 57:7	driving 31:19	efforts 18:6	96:23
62:15	17:22	51:1 54:2	108:9	77:3,7	62:1	18:13	Enron 58:7
decade 100:5	depth 70:24	70:16,21	direct 117:18	diversity	drop 89:21	EFG 31:9	enter 40:12
decent 85:14	Derrall 63:23	71:24 72:11	directly 18:11	62:13	dropped 40:8	either 9:1	42:21 66:17
decide 7:5	Desautels	77:11,12	19:9	divide 37:12	90:21	90:4 116:1	entertain
10:10,12,15	66:22 69:4	79:17,18	Director 47:3	dividend	duopoly	election 60:10	105:10
16:17,19	84:10 88:24	90:23 97:19	66:21	49:15 61:13	86:23 87:16	109:17	106:1
77:14	describe 77:1	114:9	Directors	dividends	dynamic 13:5	elections	entire 37:6
decided 31:1	describing	differentiate	12:13	49:17 90:5	104:13	30:24	68:6
39:14	76:5	22:22 97:13	disappointed	division 25:6	dynamics	element	Entirely
decides	design 74:10	differentiates	58:2	44:4	103:2	78:11	88:18
102:16	106:7	48:18	discipline	doing 22:5	<hr/> E <hr/>	elements 12:4	environment
decile 80:21	detail 76:6	differentiati...	47:21 58:23	25:18 36:4	E 2:1,1 117:1	103:18	47:16 48:5
deciles 57:14	84:22	49:10	59:5	39:2 40:1	earlier 55:10	eliminate	environmen...
decision	details 4:20	differentiati...	disciplined	47:20 72:8	60:15 61:9	115:19	66:1
72:24	21:18	26:3	85:12	83:18 84:22	100:8	eliminates	environments
decisions 5:15	determined	differently	discretion	97:22 99:10	early 50:21	107:20	77:12
72:20 81:5	77:14	16:20 72:1	60:22	102:1	58:18 60:23	email 113:11	Epic 86:1
90:11	105:14	97:24	discretionary	113:13	earn 74:11,12	emerging	EPS 86:1
decs 12:17	deVassal	difficult	8:7,9 49:20	dollar 16:2	earning 61:16	108:7,9,10	equal 4:23
dedicated	43:11	44:11 45:10	60:20	dollars 15:16	61:16 62:7	108:14,19	equate 47:20
17:11,20	developed	47:16	110:11	67:21 88:3	62:18,18	109:3,10,13	equation
18:4,10	50:4 51:15	DiFusco 2:8	discuss 6:9	112:9	85:24	109:20,21	40:13
44:17 108:9	106:19	3:14 10:20	19:13	domestic 6:8	earnings	110:1,4,7,8	equities 8:1
deem 21:13	107:24	11:15,20	114:22	10:6 105:5	51:13,24	110:23	17:16,17
deep 70:13	108:8	12:19 28:9	discussing	107:3	52:4 56:4	111:1,13,22	19:8 104:24
93:20	109:19	28:18,22	11:6 115:18	dominance	58:3,4,8	emotion 15:5	106:24
deeper 14:13	110:5	29:4,7	discussion	90:3	61:12,23	29:19 97:5	equity 18:6
deeply 74:15	developer	38:17 42:4	6:21 7:5,7	dominant	64:7 76:13	97:8	19:17 20:18
default 58:14	66:19	42:15,18,22	7:13,23	85:12	ease 88:5	empirical	24:9 35:3
Defensive	deviation 5:2	54:11 55:4	10:17 19:15	Donald	easier 82:16	25:19	67:22
21:6	deviations	66:14 81:8	30:11 106:4	109:18	easy 41:20	employees	106:19
defer 112:18	96:12	81:21,24	116:3,5,8	Dot 86:1	42:2	43:23	108:12
113:4	DFA 108:18	84:4 92:15	discussions	dotted 48:9	eat 104:16	empowered	110:22
define 20:7	111:19	94:4,9	112:19	doubled	economic	13:11	114:5
21:7	dial 112:2	98:10,20	115:15	98:20	50:21 58:18	encouraged	error 60:7
deliver 8:5	dialogue	99:1,5,8	Disney 23:11	doubling	58:18 60:22	13:11	especially
70:9 80:16	48:10 93:18	100:4,16	disparate	99:18	60:23	ended 41:17	21:19 31:15
84:1	die 69:4	101:8,20	5:17	downside	economies	53:21 64:5	39:8 87:8
delivered	difference	102:10,15	distinct 18:4	35:14 50:12	109:20	endowments	94:14 99:14
14:22	8:12 53:1	104:14,16	18:22	57:15 62:16	110:6	46:4	103:16
delivering	88:10,13	104:20	distinguish	drastically	edge 70:13	ends 64:15	essentially
80:19	95:12	105:3,19,22	23:3 35:17	88:6	73:16 81:3	80:19 81:3	16:2 37:11
demonstrat...	108:15	106:8,14	dive 12:14	Drexel 46:18	effect 56:12	82:16	86:11 90:24
39:5	differences	112:18,24	14:13	46:23,24	effective 7:17	energy 71:12	93:22 99:9
denoted 27:9	35:21	113:4,18,23	diverse 67:21	drive 77:12	47:12 49:9	72:21,23	114:4
Department	different 5:12	114:18,21	diversificati...	90:11	96:9 107:15	73:11 77:21	estimate 56:5
90:18	15:3 17:2	115:1,3,8	27:19 72:3	driven 15:2	111:12	109:8	estimated
depending	21:9 22:7	115:10,14	79:16,24	57:10,22	effectively	engine 17:5	56:5
4:13 37:2	22:24 23:2	115:21	93:19	90:7 94:24	53:7 83:4	engineered	estimates
93:1	23:23 24:13	116:7	diversified	104:2	effectually	32:14	51:24 52:9

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 5

52:10 56:19 57:4 63:19 et 9:21 European 88:9 evaluation 56:2 event 32:9 33:1 events 30:2 31:14 33:14 33:15,16 everybody 12:17 36:20 36:24 37:19 39:23 44:18 62:2 64:17 64:20 71:17 71:18 81:15 everybody's 64:16 everyone's 39:8 evidence 117:4 evolve 13:24 evolved 87:18 exactly 14:22 34:13 36:4 example 13:15 22:15 23:9 24:23 25:3,21 30:22 64:13 90:10 91:20 102:1 examples 27:11 76:4 76:6 exceed 13:7 excellence 14:2 excellent 52:13 exception 63:13 114:2 exceptional 21:2 25:21 excess 15:23 70:9 exclude 52:20 57:17 exclusively	97:17 existence 20:17 existing 25:24 expanding 43:22 expectations 35:2 56:16 expecting 35:3 expenses 104:10 expensive 4:9 107:2 expensiveness 24:12 experience 19:6 46:16 74:9 expertise 75:5 75:16 experts 93:24 exposure 31:1 31:10 32:1 32:15 60:19 88:16 89:4 106:23 107:1 exposures 22:2 27:15 27:22 79:17 79:18 extended 46:18 extensive 27:22 51:10 55:10,17 extent 24:5 39:6 52:20 108:5 110:16,19 111:2 extra 116:4 116:11 extreme 30:21 <hr/> F <hr/> F 117:1 face 109:18 Facebook 16:13 99:16 fact 5:9 40:10 59:10 62:19	98:9 factor 5:13 31:19 factors 5:12 18:7 21:8,9 23:23,24 24:3,15,20 25:5,7 34:20 49:14 56:5 78:16 fair 33:13 35:19 fairly 32:1 85:12 91:23 95:22 110:19 fall 44:6 59:2 107:5 falling 109:7 familiar 12:7 13:3 16:12 66:3 family 46:18 far 39:10 89:17 Faraday 12:12 17:10 26:16 29:2 29:6,15 30:20 31:6 31:13 32:12 32:23 33:13 34:20 35:19 36:13,16 38:4,9 40:5 40:7,21 41:24 42:5 42:8,9,12 fast 16:21,22 17:1 23:2 25:1 45:16 91:24 faster 23:11 favor 3:9 105:17 112:16 FDA 57:22 fee 4:6 5:23 6:21 9:12 38:18 39:11 39:17 54:14 54:17,21 66:11 81:15	81:17 83:19 83:24 92:19 93:4,8,15 93:24 99:19 101:1 114:6 114:10 feel 35:20 36:15 70:5 84:23 94:3 fees 4:5 5:21 8:24 9:3 12:7 15:20 38:23 39:9 39:10 54:12 93:9 94:11 94:16 96:8 96:14 104:11 107:15 111:12 felt 64:10 87:19 91:9 91:14 fewer 37:4 61:16 fight 103:24 104:6 figuratively 37:8 figure 10:17 54:22 98:6 101:7 Finalist 3:13 finally 18:24 20:9 finance 94:1 financial 49:21 63:23 63:24 115:16 financials 49:16 71:12 73:11 97:24 find 21:21,22 28:23 32:19 50:5 57:2 61:9 70:19 83:22 85:1 85:17 fine 42:1 102:4 fired 42:3 firm 12:21,24	13:5,10,11 13:24 14:5 43:3 44:9 44:23 45:10 45:15,17 46:6 66:23 67:9,15,20 67:23 68:13 69:1,23,24 74:12 75:20 96:20 firm's 4:17 firmlly 44:15 firms 4:1 8:18 75:23 98:7 98:23 first 7:22 10:10 11:17 13:4 14:20 20:2 21:2 21:19 26:20 29:16 38:23 39:21 47:23 60:10 69:5 80:16 82:18 106:17 113:8,18 114:6 116:12 fiscal 114:8 114:10 five 18:10 48:17 56:15 56:18 76:4 80:12,13,13 80:22 83:13 86:21 87:23 88:7 89:13 92:21 114:12 five-year 81:13 82:3 83:11 fixed 17:15 67:23 85:7 85:9 104:24 114:3 flags 64:2 flare 90:8 flat 111:13 flavor 92:4 93:19 flexibility	93:17 flipside 88:21 89:5,8 flooded 38:16 Floor 1:15 flow 49:18 56:20 57:3 61:13 85:20 90:2,3 102:24 flowing 116:11 flows 58:7 103:8 fly 41:10 focus 8:22 12:4 18:12 33:18 43:1 67:24 71:10 73:19 77:1 77:22 focused 5:10 80:4 81:2 81:11 101:18 focuses 31:21 74:16,17 76:20 focusing 29:21 70:11 folks 13:22 14:18 74:23 81:14,18 82:6 113:1 115:12 follow 94:3 following 14:12 34:16 68:6 109:17 follows 76:13 food 103:24 104:6 footprint 43:22 force 16:13 59:7 63:15 65:2,13,14 forced 64:13 forecasting 52:3 foregoing 117:7,15 forget 15:23	102:23 form 25:10 90:5 Formally 44:9 forth 84:21 86:19 87:12 87:14 90:17 91:20 fortunate 17:21 46:23 forward 6:10 22:9 30:12 34:11 35:2 45:16 56:6 88:20 100:10 112:11 113:15 found 49:18 51:6,22 58:1 foundations 46:4 founded 46:6 four 15:12 16:13 86:21 88:7,12,18 89:13 109:13,22 frame 37:2,16 37:20 framework 20:16 71:16 76:3 France 108:3 frankly 61:14 68:21 69:2 95:15 97:6 103:3 109:7 109:12 fraud 64:7 fraudulent 64:8 Fred 4:10 6:3 10:4,13 114:17 free 49:18 56:20 61:13 70:5 84:23 85:10,20 90:2,3 94:3 102:24	French 30:24 FRIENDS 1:21 front 20:1 full 1:21 100:12 fully 117:5 function 74:2 77:16 fund 1:2,11 5:2 9:22 38:6 95:13 100:19 101:12,16 101:23 108:9 110:2 112:2 116:6 fundamental 38:12 47:9 47:19 48:9 48:21 49:7 56:3 57:24 94:24 95:3 fundament... 36:1,2 fundament... 58:24 fundament... 24:5 funded 107:11 funding 10:18 11:8 106:20 107:12 108:15 funds 8:23 53:2,3 97:15 107:2 107:3 further 17:7 22:12 42:17 100:11 <hr/> G <hr/> Gallo 77:5 game 15:9 Gas 40:19 gauge 86:6 GDP 109:11 general 1:18 40:18 96:16 97:22 generalist
---	---	--	--	--	---	--	--

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 6

75:1 generally 71:6 74:9 76:22 generate 85:10,14,22 90:2 101:3 generates 68:11 generating 92:13 gentlemen 105:24 Geopolitical 109:17 Germany 108:3 getting 29:13 49:8 56:22 75:7 78:8 93:23 GIM 44:17 give 4:3 6:18 27:10 41:2 43:1 45:7 77:18 83:23 84:21 90:4 90:10 99:24 101:12,16 given 28:4 91:16 101:1 102:7 gives 32:15 89:23 100:6 giving 84:11 100:12 Glenmede 42:21 43:10 43:16,23 44:3,6 47:5 47:5,6,8 48:11 103:16 104:9 Glenmede's 4:5 global 12:23 17:19 19:6 19:8,17 30:22 66:23 66:24 67:20 68:3,4 75:21	101:12 globally 17:14 19:19 30:3 globe 71:5 gloss 12:8 go 6:15,20 7:1 7:3,3 10:14 11:18 14:14 15:6 18:8 21:18 30:4 30:12 35:22 37:4 45:19 48:15 49:6 50:1 57:13 59:4,14 72:22 74:1 76:5 82:24 84:22 86:3 87:6,10,14 89:22 95:8 98:2 104:12 105:15 109:19 112:8 113:6 goal 70:8,8 71:11 77:19 goes 31:23 96:21 going 6:12 7:4,8,20 8:24 10:8 10:12 12:22 13:24 30:18 30:24 32:10 37:5 39:15 43:12 50:16 51:7,9 52:8 57:22 58:12 62:16 64:5 65:16,20 67:4,5,6,8 67:11,16 68:1 69:16 70:7 71:4 72:22 73:11 81:8 82:9 87:19 88:2 88:20,20 91:4 92:17 96:2 98:22 98:23 99:23 100:2	102:16 103:24 104:6 107:15 109:5 112:8 112:9,10 113:14,15 114:19 115:11,17 115:24 Goldsmith 2:9 4:18 7:15 11:18 11:22 88:22 94:8,10 98:14 101:21 102:6,18,23 103:9 104:3 105:1 106:5 106:9,16 109:1,4 110:15 111:3,10,17 111:24 113:21 115:6 good 3:2 8:14 9:8 10:23 14:11 49:15 49:16 61:8 61:17 84:17 85:9,10,14 85:24 87:11 90:7 91:12 91:15,17 92:2 93:19 103:11 Google 59:24 99:16 great 14:8 17:10 26:16 29:15 36:23 38:19 43:6 46:12 70:5 86:21 87:16 88:19 113:13 greater 22:16 58:14 59:23 green 55:1,2 55:7 gross 54:13	group 15:12 47:7 50:13 52:18 58:16 60:4 62:17 73:23 74:1 80:17 96:20 97:2 113:14 grouped 24:3 grouping 48:8 groups 23:21 23:24,24 24:1 50:15 50:19,21 58:20 growing 13:5 16:21,22 22:15,18 23:11 25:1 25:2 76:14 76:14,15 grown 89:12 growth 3:22 4:21,23 5:11 6:23 8:5,13 21:2 21:3,4,12 22:7,8,12 22:17 23:1 23:2,2,5,6 23:13,15,18 24:19,21 25:3,4,15 25:17,21 47:10 52:1 61:13 72:5 72:9 76:10 76:13,17,22 76:23 77:3 78:14,20 97:19 109:11 110:8 growth-orie... 56:3 78:21 guards 109:10 guess 3:7 35:15 65:23 99:22 105:9 109:12 guidance 18:14	guys 7:11 39:15 41:15 42:22 81:15 88:10,14 99:12 103:20 <hr/> H <hr/> half 44:16 52:16 59:24 75:11 77:18 77:19 hand 17:8 28:6 handicap 54:23 hands 95:7 happen 41:13 41:23 91:7 91:19 104:23 happened 91:14 happening 34:8 82:17 happens 26:13 73:15 78:3 101:23 happy 66:12 83:5 106:1 hard 56:15 57:2 59:4 61:9 86:24 89:21 99:17 hardware 76:8 Harvard 74:18 hazing 84:15 he'll 41:24 head 18:8 19:7,8 107:16 headings 24:16 headline 30:10 63:9 63:12 64:15 64:19 headquarte... 44:19 heads 18:5 39:13 103:10	headwinds 110:10 healthcare 16:14,17,21 60:8,8,11 77:21 healthy 85:3 85:4 86:4 hear 8:21 69:9 94:12 heard 116:12 held 1:12,14 9:7 58:5 help 47:11 50:6,14,19 51:2,4 57:7 77:12 helped 52:21 59:9 91:10 helping 13:7 62:7 helps 21:20 24:19 38:11 51:11 58:19 60:6 77:3,6 86:6,10 herd 52:8 hey 82:8 Hi 12:9 high 14:16 17:12 21:3 21:4 23:17 25:1,4,14 38:7 57:3 57:18,19 61:13 70:8 72:15 75:18 76:22,23 82:22 89:18 high-growth 17:1 higher 22:17 56:16,16 highlight 18:18 highlighted 92:10 highlights 15:9 highly 57:17 historic 61:12 historical 48:5 49:4	hit 43:3 70:14 79:3 hits 59:5 hitter's 86:11 holding 59:16 home 86:18 89:11,24 home-kind 89:6 honor 40:20 honored 66:13 hood 93:21 Hook 28:12 hop 41:12 hopefully 10:1 39:5 48:13 93:13 93:18 Huggins 66:20 70:5 72:17 79:2 81:20,23 82:12 84:5 92:22 93:3 human 15:5 29:11,14,18 hundred 15:16 16:1 57:7 hundred-plus 66:5 hung 32:18 hurt 53:15 hypothetical 15:15 Hypothetic... 41:6 <hr/> I <hr/> idea 3:20 49:1 73:13 103:7 114:16 ideally 96:5 ideas 13:12 24:2 48:12 49:9 56:6 69:15 71:7 75:8 79:12 79:23 93:22 identified 23:20 identifies	38:8 identify 50:6 50:24 51:2 51:4,11 55:20 58:19 71:7 identifying 51:7,9 52:13 ignore 53:8 illustration 15:15 22:5 imagine 38:15 immediately 64:9 impact 5:3 28:21 29:5 30:10 32:10 65:23 66:7 implement 68:10 69:13 implementa... 18:9,15 27:1 implemented 30:15 implements 69:20 importance 20:20 89:12 important 13:13 17:3 18:18 21:13 31:18 34:24 39:8 43:4 48:16 62:12 67:10 68:9 68:15 71:21 79:5 85:1 85:11,17 86:12 94:11 103:3 importantly 43:13 98:5 impression 103:15 improve 48:13 improving 56:22 65:7 in-house 51:16
--	--	--	--	---	---	--	--

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 7

82:6 incentivized 83:8,14 inception 14:23 20:13 30:16 43:14 93:7 inclement 3:16 include 49:3 54:12 included 101:23 104:15 includes 17:15 18:16 38:6 including 44:19 income 17:16 67:23 104:24 109:10 114:3 inconsistent 81:22 increase 5:18 10:7 incredibly 13:13 16:8 independent 95:17,24 indepth 39:24 index 7:12 8:1 22:2 32:3 53:2,2 53:3,6,7,9 53:17 61:21 62:20 96:24 103:22,24 109:14 indexing 7:16 7:18 108:5 indicators 48:8 50:14 58:17 indices 107:1 individual 45:21 49:23 53:9 62:20 79:22 95:8 individuals 19:3,10	industrial 109:9 industries 109:12 industry 16:23 19:4 48:8 50:13 50:15,19,20 50:22 58:16 58:20 60:3 61:3 62:17 66:24 67:1 68:3,4,6 71:7,14,16 71:23 72:18 72:20 73:1 75:21 76:12 77:16 78:1 78:7 79:17 91:22 93:24 97:20 inferior 87:7 info 50:22 information 18:20 23:16 26:10 28:5 37:10 80:14 80:20,21 95:19 99:18 information... 8:19 informed 116:11 ingredient 22:6 initial 9:18 57:14 106:19 inline 62:9 inside 44:4 insight 75:6 insights 47:13 47:22 48:21 institution 63:24 institutional 43:9 45:5,7 45:19 46:1 institutions 46:3 intentional 27:16,17 intentionally	75:14,17 interest 70:1 83:6 interested 91:3 interesting 95:11 97:1 102:3,4 interests 68:16 83:17 intermediate 8:6 internal 19:17 39:9 40:23 international 7:20 106:18 106:24 107:1,8,18 108:1,12 110:22 112:2,7,9 interpretati... 97:7 interrupt 45:3 99:6 intervene 30:4 intervention 29:11,14 intimately 90:22 intricacies 8:22 introduced 9:15 intuitive 49:2 invest 58:12 invested 15:16 29:13 34:6 97:8 investing 15:6 34:5 84:19 85:2 86:3 92:5 investment 8:7,18 13:10 14:2 16:2,3 17:14,17 28:10 43:10 44:3,4,6,7 44:16,18,20	46:16 47:4 51:20 66:21 67:24 68:23 68:23 86:13 90:11 investments 5:11 17:13 20:18 86:4 109:11 investor 55:15 62:1 76:11 77:2 77:6 95:2 investors 13:21 58:2 61:24 72:11 77:11 invests 92:11 invited 115:13 involved 18:21 41:1 70:16 iPhone 87:13 87:13 iPhones 87:19 Ireland/Mc... 28:11 issue 53:8 64:6 issues 62:1 109:16 115:5 item 106:3 111:8 113:6	102:22 105:7,9,16 111:15,23 112:15,21 115:20 116:2,13 join 11:21 joined 45:13 48:2 66:20 joining 12:11 47:4 Joseph 46:7 journals 74:21 jump 70:5 84:10,23 Jumping 54:20 junior 75:22 junk 58:13 Justice 90:18	<hr/> K <hr/> Kate 12:12 13:15 17:9 21:17 22:14 26:12 29:9 42:4 keep 11:24 17:3 31:6 36:13 56:16 67:5,8,16 68:12 87:10 93:17 96:10 keeping 22:1 100:17 Kelly 19:6 key 8:24 19:23 22:4 52:24 69:8 kind 19:21 32:15 33:24 36:4 37:22 39:20 41:10 45:23 46:17 54:9 62:13 69:17 81:16 86:10,18 88:9 92:11 93:23 100:7 101:18 King 1:13 117:11 knew 90:24	91:4,4 know 4:2,3,15 4:23 5:3,7 5:14,15 7:17 8:4,14 9:18 10:7 11:1,3,9,11 12:1 28:4 35:3,4 39:11,16 42:9,13 51:18 53:10 56:10 57:9 60:10 62:4 63:16 64:10 64:18 66:6 67:11 71:4 72:21 82:10 83:20 86:7 89:2,7,14 91:12,16,20 91:21,22 92:7,9 94:22 95:23 96:12,21 97:17,19,19 99:10,17 100:19 102:5,11,17 103:3,4,10 105:24 106:10,12 107:15,17 107:18 108:2,3,14 108:15,17 110:6 112:1 114:5 115:12 knowing 91:6 knowledge 91:22 knows 97:10 Kristina 66:18 72:4	<hr/> L <hr/> LA 90:17 ladies 105:24 LANE 1:21 large 3:12,22 5:11 6:8,17 7:8,11,22 8:2,15 9:10	9:12,22 10:6 11:2 29:21 37:1 37:6 38:3,4 38:8,16 39:3 43:12 44:13 45:19 67:2,17 73:23 74:4 80:10,10 90:6,16 97:4 98:17 100:18,21 105:5 108:1 114:5 largely 52:16 85:7 94:23 95:2 largest 46:5 108:2 lastly 58:22 108:7 late 106:12 Laughter 36:12 69:6 105:8 launched 47:22 layering 112:6 layup 101:6 lead 12:6 leadership 19:14 leads 5:13 75:6 lease 43:20 leave 16:9 38:22 45:23 63:3 96:18 left 74:7 80:12 left-hand 37:9 76:7 79:7 lesser 41:7 let's 20:14 41:6,11 level 10:18 14:16 17:13 25:9,10 26:9 70:8 72:15 79:21	80:5 Levering 76:19 Liberty 43:18 life 17:4 20:2 20:5,23 21:16 23:21 24:17 26:21 27:6 29:24 38:24 69:19 life-cycle 22:14 light 68:2 lights 115:5 liked 96:8 likes 74:22 limited 53:18 line 7:13 22:8 22:8 48:9 78:7 111:15 lines 42:11 54:19 74:4 list 65:4 66:7 113:7 115:7 listed 90:20 lists 66:4 literally 37:7 113:10 litigation 57:20 little 13:2 15:7 34:19 41:22 44:11 69:3 70:3 70:18,20 76:5 81:23 82:19 84:7 84:22 92:4 95:16 102:7 106:12 107:2 110:9 live 97:11 local 104:9 lock 88:10 89:18 Logan 106:6 112:18 long 9:1 22:9 56:13 63:22 68:20 84:17 91:23 99:10 107:23 108:4 110:7
--	---	--	--	---	---	--	---	--	---

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 8

64:12 101:4	60:9	manage 6:4	39:11,18	100:15	41:2 103:5	82:4 93:17	46:8 66:13
look 4:22 6:3	lose 33:10	66:13 67:19	41:17 74:5	117:7	MEMBERS	minerals	69:14 86:8
10:3 11:10	86:9	69:14 73:23	manner 23:5	matters 85:6	2:3	109:9	90:4 91:13
15:6,15	lost 33:3	74:8,13	23:7	mature 17:1	memo 4:19	minimize	99:21
20:19 22:23	lot 8:18 28:4	89:3 99:21	Marc 2:10	21:5 22:19	5:9 106:6	31:10	113:15
27:11 28:10	32:2 40:12	102:19	4:4,15 9:14	22:20 24:24	106:17	minimum	114:20
28:13,16	48:5 54:1	managed	100:23	max 32:4	108:23	98:11	116:4,5,11
33:3 34:3	57:6 58:23	36:1,2	Marc's 11:3	maximum	112:24	minor 97:12	monies 24:5
36:3 37:9	61:6 62:5	65:23	100:8	53:12	memos 4:18	minus 26:7	monitor
37:17,21	63:16 70:19	management	March 3:5,16	mean 6:18,24	mention 16:7	27:12,14	30:13
38:10 39:21	74:20 79:22	2:9,10 7:21	10:22	33:11 37:9	69:8 72:18	60:4	monitoring
48:20 50:11	80:2 81:1	8:15 9:3	margins	48:22 62:2	83:7	minutes 3:5	18:20 27:24
52:5,7 53:3	81:13 82:24	12:5,24	76:15 98:16	82:4 97:6	mentioned	4:2 12:1,2,3	30:1
53:24 55:1	83:15 85:17	18:16 24:6	mark 82:22	99:5 102:3	1:12 18:1	14:15 42:24	month 63:14
55:10,11,13	85:19 87:20	26:15 43:10	market 15:24	105:22,24	19:22 20:21	62:24 76:1	65:1,22
55:18 58:11	88:8,20	44:3,4,7,16	31:23 34:11	110:14	22:14 29:18	92:8,9	110:2
59:15 60:3	89:12 90:2	44:18,20	34:17 36:5	meaningless	55:9 61:9	mitigate 31:2	month's
63:11,14	97:2,8	56:3 66:20	36:6 50:10	63:13	63:6 65:24	model 18:7	110:2
64:9 65:17	102:3 107:3	67:22 68:8	54:4 56:7	means 22:16	68:4,24	26:9 29:10	monthly 5:5
65:18 71:5	108:4 109:6	92:12 96:3	62:10 71:6	23:4 67:13	72:4 74:15	30:5,8	20:10 27:5
71:15,19	113:14	107:9,16	76:12,15,22	72:2 89:16	75:9 76:2	31:21 33:1	months 56:11
72:1 76:14	lots 18:19	manager 5:15	85:3 86:19	117:17	84:16 104:4	34:7,10	58:21 59:3
78:12,13,17	40:23	5:15 6:24	86:22 88:19	meant 27:17	met 65:9	51:13,15	60:12,17
80:7,22	love 13:22	7:6 9:12	89:9,19	measure	metals 109:9	52:12 62:15	115:23
85:2,18	59:1,2,8	14:21 35:16	90:1,8	24:24 25:1	methodical	63:9,21	morning 3:2
93:4 97:14	loved 89:16	36:2 37:10	101:4 112:3	58:4	30:14	67:24 71:20	42:23 64:3
97:16 98:17	low 35:1 38:7	37:15 43:11	marketing	measurement	methodically	75:2 91:6	motion 3:6
101:18	39:13 40:1	67:17 70:17	45:9	82:14	19:23	95:6 96:8	105:10,10
102:21	75:10,13	71:13 75:1	markets 5:16	measures	metric 61:14	98:3 103:11	105:12
115:23	85:10	75:23 83:22	34:8 35:4	21:12 22:24	71:19 95:21	103:14,17	112:12
looked 28:9	lower 5:2,20	112:7	36:22,22	24:13	metrics 49:12	104:17	116:13,14
59:19 87:16	5:23 52:9	114:13,23	47:16 76:14	mechanics	56:2,4,21	105:4,15	motivated
87:22 93:4	61:12 77:5	114:24	86:15,17,18	75:24 78:24	57:12 65:18	models 47:18	91:2
looking 7:12	94:12 111:5	managers	88:9 89:5	median 22:16	95:3 97:19	47:19 49:22	move 3:11,18
9:1 14:20	111:12	5:17 6:11	108:8,9,10	22:18 23:12	102:23	50:2,3,23	6:10 7:11
15:5 20:20	114:23	9:7,10	108:14,19	23:14	Michael 19:6	51:2,4	14:6 63:17
22:9,9 23:8	lowers 107:14	10:11 11:6	109:3,13,21	medical	Microsoft	53:23 55:24	67:7 88:3
24:4,7,11	lucky 91:18	12:13 37:4	110:2,4,8	74:19,20	60:1	57:16 59:7	100:10
24:18 35:2	lying 40:14	46:14 47:9	111:2,13,22	meet 12:10	middle 55:23	59:13 60:8	110:24
35:9 37:3		53:1 54:9	material 29:4	13:7 35:5	109:8	62:4,16,17	111:6 115:2
38:12 47:17	M	58:24 70:22	32:10 33:22	41:15 42:5	million 6:4,5	modest 79:20	movers 64:2
51:11,22	M 1:13	80:11 94:21	materiality	74:21 84:12	15:16,22,24	80:18 83:23	moves 34:10
56:6,22	117:11	96:4 100:21	64:11	meeting 1:4	16:1 39:12	moment	82:7
58:17 64:5	macro 19:15	107:22	materials	1:11 3:3	39:18 41:5	21:10 26:23	moving 4:21
68:17,18	30:2,9 62:1	110:22	67:14	6:10 9:16	41:6 54:22	76:4	7:18 8:12
71:3 85:19	main 22:6	114:1 115:5	math 92:18	10:15,22	100:13	momentum	114:17
93:20 96:5	24:2,2	115:7	92:19	42:6 100:9	107:13	56:9 76:11	115:24
98:18	maintain	manages 38:7	111:20	100:9 105:6	111:19	76:17 78:15	multi-asset
101:12	85:14	77:15	mathematics	113:17	mimic 32:16	95:2	17:15 19:7
103:22	majority 9:8	managing	48:3	114:22	mind 12:16	Mondrian	multiple
looks 34:9	9:24 10:1	12:13 47:24	MatLab 48:4	116:15	14:10 16:10	108:18	10:24 51:4
45:24 51:16	80:3	64:14 96:9	matter 61:23	meetings 3:19	17:4 36:18	money 10:13	multitude
56:24 57:5	making 47:12	mandate 6:24	62:4 83:1	19:11 28:2	39:8 68:13	40:12 43:5	21:7
	111:10,14						

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 9

N						P	
N 2:1 117:1	72:19	25:24 41:7	63:2 72:17	49:4	114:2	P 2:1,1	7:3,21 9:17
name 15:9	neutrality	70:15 71:22	79:2 84:4	optimize 27:4	outperforms	p.m 116:15	9:24 10:1,3
27:6 29:19	78:2	72:2 74:2,5	111:23	optimizer	78:3	PA 1:24	10:6,8,14
29:23 31:3	neutralize	78:1,16	112:21	65:9,14	outside 35:10	package	11:11 15:21
31:16 32:1	72:23 73:16	88:11	116:2	option 9:20	44:9 45:9	48:16	83:21,24
32:9,17,19	73:17	100:20	on-boarding	24:9 81:15	45:15,17	page 4:6,7	106:23
33:1 43:8	never 42:13	numbers 37:5	107:6	81:17 82:1	over/under	11:13 12:17	107:1,2,3,8
44:1 53:12	new 47:11	108:22	once 11:7	Oracle 76:10	50:17	12:20 14:9	112:1,9
66:18	48:12 65:3	113:9	23:19,19	orange 73:9	overall 3:17	14:11 16:11	114:21
names 20:8	65:16 90:16	NY 1:24	30:7 100:9	73:16	5:23 6:7	22:4 25:3,8	path 68:9
21:21,22	news 29:12		105:14	order 3:4	26:5 61:6	25:18 36:3	pattern 80:6
27:4 28:23	30:2,10,21	O	one-half	11:18 58:4	69:18,22	37:6 45:2	Paul 47:7
30:4 32:2,3	64:16,17,19	O 117:1	59:17	organic 91:16	96:13	46:13 48:15	65:10
37:2,22	NEWTOWN	O'Gannon	one-month	organization	107:15	48:16 54:5	pause 14:4
38:1 59:19	1:22	66:18,19	64:23	12:7 18:3	114:24	54:5 57:13	15:7 17:8
59:20,22	Nice 12:10	69:7 92:7	one-year	19:3	overcoming	58:16,22	28:6 81:6
62:8 65:2,3	Nike 71:2,2,3	93:12	81:19 82:14	organizations	53:21	61:7,19	pay 9:4 49:17
74:7 79:12	nine 15:10	O'Shaughn...	83:2	66:3	overlay 48:21	62:12 66:11	94:19
88:23 89:4	43:21 52:4	3:24 4:12	ones 90:1	orientation	53:5	70:7,14	paying 9:3
National 47:2	56:11 58:21	6:4 10:5	ongoing 9:9	77:3	overreaction	73:2,21	payments 5:5
nature 30:15	NJ 1:24	114:16	48:13	oriented	64:15	76:1 79:4,6	110:3
97:4	noise 31:20	O'Shaughn...	open 93:18	47:10,11	override	80:7	pays 76:22,23
nearly 90:21	31:23	10:13	operates	original 16:3	31:16	pages 55:8	PE 61:12
necessarily	noon 67:6,7	objective	97:24	43:13 66:12	overshoot	59:14 67:14	peer 15:12
8:10 51:8	Northern	14:17 25:16	operating	originally	64:20	79:3,5	38:5 80:17
58:9 100:12	28:11	48:21 81:12	95:3	54:21	64:18	paid 81:18	peers 16:15
105:23	Northfield	objectively	operations	ot 71:18	oversold	82:9,9	16:23 25:12
necessitate	65:4	52:2 65:3	116:6,8	ou 87:13	64:18	panel 19:2	25:14 39:1
3:23	Notary 1:14	objectives	opinion 5:16	outcome 5:23	overview	par 75:22	40:1 80:21
need 6:18	117:12	13:8 35:5	7:3,10 10:2	92:3	12:21 14:9	parent 43:23	pegged 23:20
10:18 41:16	note 15:8,18	35:24	39:1 110:17	outline 67:15	44:22	44:2	pen 14:10
45:23 71:4	97:1,14	obviously 5:3	opportunities	outlook 109:2	101:13	part 3:17	pencils 40:4,5
75:15 78:18	noted 97:15	7:6 13:22	91:24	109:6	overweight	7:22 35:8	Penn 1:15
83:2 95:17	102:24,24	28:2 30:1	opportunity	outperform	8:3,8 32:4	73:3,8,9,14	Pennsylvania
103:12,23	117:4	30:23 37:3	5:20 73:5,6	8:23 14:21	33:20 50:14	73:14,16	1:17,22
105:20,23	notes 117:6	94:10 95:5	73:7,10	25:22 34:14	50:20 53:6	76:11 85:16	Pension
111:9	notice 1:12	96:19 114:9	74:13 84:12	35:13 36:21	60:8,15	104:17	40:19 116:6
needs 7:1	73:21 74:6	occasionally	93:13 94:2	50:7 51:3,8	72:23 73:11	particular	Pensions
negative 24:8	81:10	104:21	opposed	55:21 72:22	73:18	25:13 71:19	40:11
28:14 51:17	noticed 14:20	occurs 20:10	35:15 43:2	81:12 83:16	108:10,20	particularly	people 38:9
52:14,15,17	97:2	odds 86:10	82:2,8	outperform...	110:17,18	53:2	41:21 43:24
59:5 61:16	noticing	91:10 92:2	99:13	9:2 12:6	110:19	partner 66:23	51:20 70:16
64:16 109:6	106:5	off-balance	optimal 26:24	15:24 16:4	111:1	69:1 83:22	73:22 74:6
net 5:22 8:23	notified 115:9	64:8	30:6,13	26:6 35:6	overweights	106:19	74:7 75:12
9:2 15:20	nowadays	offer 82:21	optimisation	36:5 37:12	110:23	partners	84:17 85:18
93:4,8	39:8	offering 89:7	18:16 29:24	59:10 93:5	overwhelmi...	75:20 96:20	96:18 103:6
96:14	nuance 24:14	office 40:22	30:5	96:6,6	43:4 100:20	partnership	percent 6:7
113:21	nuances	oftentimes	optimisations	113:19,24	owing 109:22	68:14,22	6:15,17,18
114:6,10	34:20 75:3	74:22	20:11	114:6	ownership	parts 89:1	6:19,20 7:1
network 87:3	nudge 41:2	oh 7:22 97:23	optimization	outperform...	68:13	pass 6:21	7:2,2 8:2,2
87:7 88:11	number 9:6,7	okay 10:12	30:8 65:5	15:10,22	owning 53:22	106:11	9:19,19
neutral 31:2	9:9 10:3	11:14 28:22	65:12	54:7 56:10	56:17	passive 6:15	10:4,5
	24:13 25:23	29:7 39:21	optimizations	56:14 93:8	owns 79:12		14:24 25:23
		40:16 41:19					

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 10

25:23 26:2	83:3,12	piece 78:4	97:13 100:8	72:13,18	prefer 5:14	68:14	108:16
26:5,7	92:19 94:22	84:8	101:1	73:24 74:8	56:17	probably	proposed 4:5
27:13 30:12	105:23	pieces 23:16	102:20	75:1,7,20	preferrable	9:15 38:10	54:21,21
32:4 33:4	113:9	77:8	107:18	75:22 76:1	93:16	41:14 48:15	proposing
33:21 34:15	114:10,11	piggyback	112:5	76:18 77:9	premium	70:18 79:4	99:23
35:3,6,11	performanc...	6:1,2	113:19	77:9,15,23	88:13	79:9 84:2	proprietary
37:15 39:17	81:17,24	Pinebridge	points 4:11	78:2,5,8,13	present 1:14	92:23,24	50:1,23
39:22 40:9	94:15	4:7 11:21	4:13 14:22	78:13,18,19	2:7 39:10	100:8 102:7	51:15 57:16
41:3 45:6	performanc...	13:4 17:13	22:12 35:23	78:24 79:8	42:23 81:14	problem 29:3	68:1
45:14,16	81:14	18:6 20:18	39:12,16,22	79:13,15,20	96:24	proceedings	protect 35:13
50:8 53:13	period 9:2	94:12 96:8	41:5 52:19	79:21 80:1	101:11	117:4	36:22
53:14,15,17	28:5,13	96:22 97:13	54:15,17,18	80:1,19	presentation	process 15:7	protection
53:20 55:22	59:2 62:5	97:21 98:8	54:19,23,24	81:4 83:10	4:6 14:12	16:6 17:19	35:15 36:5
56:1,2,4,7	82:14,16,17	100:11	67:9 70:14	84:6,8	63:7 79:5	18:22 19:22	36:6
59:17,18,21	82:18 83:2	103:16	93:1 94:13	88:18,23	81:10	19:23 20:1	proud 43:20
59:24 60:1	83:5 87:22	104:8	94:16,19	93:20,23	presentations	20:12 21:15	proudly
60:2,4,6,11	91:23 92:23	105:10,11	98:8 107:19	95:9 98:2	3:13,15	24:20 26:13	43:17
60:17 64:4	93:1,6,7	105:13	113:23	103:19	12:2	26:20,23	proverbial
65:15 75:11	periods 46:20	114:20	114:3	portfolio's	presented	28:8,17,20	69:7
77:18,19	101:4	place 8:15	policies	70:11	95:11	28:24 30:14	provide 10:19
79:10 80:3	107:24	20:13 43:18	109:19	portfolios	presenter	31:8 32:7	35:9 47:11
80:4 83:13	114:12	61:18 84:16	ponts 4:10	26:11,24	6:19	32:13,14,17	47:13 48:12
90:21 93:7	person	87:14 93:22	poor 58:13	27:3,5,24	presenters	34:21 35:18	100:22
94:12,17	102:13	plan 5:7 7:24	poorly 59:12	30:2,22	11:21 42:21	38:23 39:5	provided
96:10,11	personal 89:2	8:3 107:14	popped 64:3	63:14 65:2	66:17	48:1,13	54:13
107:13	personally	108:10,11	portfolio 5:3	65:24 66:1	preserve 78:1	49:5 54:1	provider
108:12,14	97:10	108:13	5:19,24 6:7	66:2,21	President	65:8,22	90:16
108:15,17	perspective	113:9	6:7 7:13,17	69:14 73:19	12:11	66:5 78:12	proxy 22:24
108:19	31:1 38:5	planned 7:24	9:13 12:5,5	90:12 95:17	pretty 12:21	86:13 96:16	Public 1:14
110:5,6	45:7 68:21	platform	13:18 16:18	95:24	14:5 39:24	101:2,17	117:12
111:7 112:6	72:20 78:16	19:18	17:6 20:9	102:19	55:24 79:14	producing	publicly
112:8,10	91:5	platforms	21:21,24	portion 6:6,8	91:15 94:13	81:4	104:23
114:9	Pew 46:5,7	17:24	22:1 26:14	portrayal	94:19,20	product	105:4
percentage	PFM 2:9,10	play 10:11	26:23 27:18	100:2	95:20	20:14 89:11	Puerto 63:23
54:12	9:9 42:24	players 89:24	29:9 30:6	pose 29:3	103:23	89:11,18	pull 31:16
percentile	PFM's 3:20	90:23	30:11,13,19	position 8:7	104:5	products	32:2 33:11
22:11,16	PGW 2:8	please 84:23	30:23 33:18	52:24 65:16	previously	46:22	pulled 32:2
23:9,12,14	116:4	93:17	35:8 36:1	85:13 91:17	3:15 66:10	professionals	punchline
perfect 12:9	Philadelphia	plus 27:12,13	43:11 46:14	110:18	price 24:23	17:14,18	80:8
13:15 44:24	1:1 13:23	60:4	47:9 52:21	positions 90:6	56:9,13	44:17	purchased
57:3 61:9	40:11 43:17	PMs 47:19	53:13 54:3	positive 24:8	62:3 68:18	profile 80:18	59:17
performance	44:19 46:17	49:7	56:24 57:5	28:14 51:17	88:13,15	80:24	purely 16:3
15:8 16:24	47:2	point 4:10 5:9	57:9 59:3,9	52:14 61:15	priced 53:4	profitability	82:14
26:4 28:15	philosophy	6:16 11:3	59:15,16	64:19	prices 64:22	24:5 56:21	pursuant
28:21 32:11	17:9 69:18	12:3 23:17	61:7,10	post 27:23	76:13 109:8	57:4,12	1:12,17
33:17,18,23	phone 41:12	23:22 25:15	62:6 64:3	potential 41:8	pricing 85:14	61:14	push 96:22
34:23 39:4	87:2,10	27:14 29:17	65:4,6,18	58:10 84:1	89:24	program	pushed 95:17
47:18 52:22	88:1	30:9 33:7	65:19 67:2	potentially	pride 13:7	46:19	put 4:8 7:5
54:4,6,10	pick 72:24	34:16 37:19	68:2,8	49:5 82:6	principles	programmi...	14:18 39:13
57:10,22	73:5,10	45:20,23	69:22 70:4	power 89:24	48:17	48:4	41:11 43:21
61:20 62:9	picking 79:11	55:14 58:21	70:17,21	pre 27:23	prior 4:20	propels 17:5	45:11 53:12
62:14,22	79:23	59:6 83:19	71:1,3,13	precious	63:6 83:3	proposal	53:18 59:3
66:8 80:6,6	113:13	84:24 97:12	72:3,8,12	109:9	private 17:16	38:18	102:16

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 11

113:5 116:5 puts 39:23	96:2 104:10 questions 12:3 14:4,7 14:13 17:24 28:8 29:16 42:16,17 44:22 59:8 63:5 70:6 72:14,16 78:23 79:1 81:7 84:5,9 84:24 92:9 92:14 93:15 101:9 106:1 114:13	ratings 58:12 ratio 10:7 36:3 37:10 80:14,20,21 95:20 rational 49:2 107:12 rationale 4:20 107:20 reach 94:3 read 81:10 115:15 reading 74:20 real 6:2 91:16 99:17 realistic 26:11 realistically 44:10 really 12:3,8 19:12,21 20:19 21:11 21:16 24:19 31:3 38:22 39:14 44:8 44:12 45:9 46:23 48:20 49:21 51:1 67:24 68:19 78:10 83:16 84:19 85:20 85:23 86:10 86:16,23 88:5 89:6 89:10,17,21 90:1,13 92:12 93:21 96:4 100:1 103:6 113:13 114:11	9:20 27:15 77:23 78:18 rebalancing 78:12 106:2 111:4,18 recall 3:14 107:17 recession 60:24 recipe 80:19 recognition 43:8 recommend 107:12 recommend... 3:21 5:22 96:22 111:11,14 112:13 recommend... 51:20 106:20 recommend... 109:24 record 101:1 recreating 55:15 red 115:5 redeploy 78:6 78:21 redo 111:20 reduce 54:18 55:3 111:12 reduced 60:13,16,19 reduction 39:17 reference 4:10 45:12 reflected 63:21 95:19 106:16 reflection 85:23 reflective 8:4 reflects 8:6 refresh 63:14 65:1 refused 90:18 regard 31:19 36:20 regions 91:17 regs 115:16	regular 9:1 96:6 regularity 5:13 reimburse 88:2 reinvest 90:2 reiterate 100:7 related 22:8,9 34:1 42:7 56:5 relationship 46:24 relative 15:12 15:20 24:12 37:6 47:19 52:6,21 54:6 57:1 60:7 61:11 70:18 79:10 80:10,17,21 83:12 97:14 108:20 109:20 110:20 relatively 12:1 15:17 62:9 107:23 relevant 24:21,24 25:1 49:20 82:12 religious 46:3 66:2 remain 10:1,2 14:1 remainder 6:20 remained 109:22 remember 10:21 86:24 90:14 removing 31:11 renewed 43:19 repeatable 20:12 96:17 replace 6:23 32:17 65:3 replacement	32:19 replacing 3:24 report 19:9 64:1 68:18 reported 55:12 64:7 reporter 1:13 117:12,19 reporting 1:21 68:17 108:16 reports 58:5 58:8 Representa... 2:11 representing 27:12 73:4 represents 17:11 reproduction 117:17 require 106:3 research 12:14 19:13 20:16 46:21 47:7 66:21 67:2 68:1,7 69:13 70:13 73:23 74:18 97:1 researched 49:1 99:16 resource-re... 109:11 resources 19:17 respect 63:3 90:7 respectful 114:15 respective 55:21 responsibili... 18:5,18,23 responsibility 74:11 responsible 43:9 65:24 rest 7:3 10:14 restriction 66:4,6,7 restrictions	28:11 restrictive 28:17,19 result 25:18 results 65:11 retail 45:5 71:24 retailing 61:2 retain 68:23 retire 75:13 retires 69:2 retiring 75:12 return 37:18 return 5:4 13:8 33:3 35:1,5 70:9 80:15 98:22 return-on-c... 76:24 returns 4:24 13:18 15:23 17:6 37:14 84:2 85:9 85:14,24 92:13 96:4 96:13,14 reval 106:17 revenue 56:5 revenues 52:1 reversion 56:13 64:22 review 14:12 27:21 30:9 65:11 113:2 reviewing 14:18 18:21 63:7 reviews 30:6 RFP 6:20 9:6 14:18 28:9 44:23 63:7 66:12 RhumbLine 106:18,21 107:10 Rican 63:24 right 6:16 7:6 8:3 9:11,12 9:22 11:4 14:15 14:1 14:17 31:13 31:18,21 32:2,12,23	35:1,19 36:17,23 38:9 40:22 42:5,6 50:1 60:7 76:20 77:5 80:13 84:2 86:9 99:7 102:22 104:19 105:7 108:13 110:9 111:7 111:20,21 right-hand 15:19 19:16 27:10 37:17 79:19 rightfully 51:21 risk 10:18 14:24 30:8 31:2 33:19 34:1 35:7 35:10 50:12 51:5,12 57:8,19 58:10,14 59:22 61:2 62:16 63:9 63:12 65:5 70:11 73:17 73:19 78:8 78:12 79:7 79:10 80:2 80:3,4,14 80:15,18 83:15 86:7 96:10,10 107:21 risk-adjusted 58:1 risk-control... 27:2 risks 64:15 79:20,22 81:1,2 111:13 risky 62:8 road 34:9 robust 8:5 103:15 role 10:12 47:8 69:11
Q qualitative 35:21 quality 24:4 25:6 58:3 58:12 62:18 72:10 77:2 87:7 88:11 89:18 quality-orie... 77:2 quantifying 103:17 quantitative 16:7 18:6 18:13 29:17 38:6 47:3,7 47:21 75:2 78:17 95:6 96:8 103:17 103:17 quantitativ... 94:24 quantitativ... 15:2 35:21 quantity 51:13 quarter 16:2 47:23 51:18 52:17 54:18 54:24 59:10 61:17 113:8 113:8,18 114:7 quarterly 27:7 54:6 54:17 55:4 77:24 quarters 52:5 54:8 107:23 quartile 80:17 question 7:16 8:14 9:14 10:21 11:2 16:5 29:8 29:15 31:17 38:20 41:4 46:10 73:24 81:9 82:13 88:22 93:15	R R 2:1,8 117:1 R&D 74:23 race 99:12 raise 52:9 56:19 111:5 raising 57:4 ran 39:24 range 107:18 rank 27:4 50:15 ranked 25:13 59:12 64:12 ranking 25:10 50:18 rankings 25:10 rare 31:15 32:21 rarely 30:3 Rasheia 2:4 99:11 rate 22:12 77:16 rates 21:12 22:7,8 23:1 52:1 rating 58:13	ratio 10:7 36:3 37:10 80:14,20,21 95:20 rational 49:2 107:12 rationale 4:20 107:20 reach 94:3 read 81:10 115:15 reading 74:20 real 6:2 91:16 99:17 realistic 26:11 realistically 44:10 really 12:3,8 19:12,21 20:19 21:11 21:16 24:19 31:3 38:22 39:14 44:8 44:12 45:9 46:23 48:20 49:21 51:1 67:24 68:19 78:10 83:16 84:19 85:20 85:23 86:10 86:16,23 88:5 89:6 89:10,17,21 90:1,13 92:12 93:21 96:4 100:1 103:6 113:13 114:11 reason 32:5 45:8 73:1 78:19 82:13 82:15 84:17 reasonable 66:6 100:17 100:18 101:2 reasons 71:21 77:24 83:16 85:22 rebalance	9:20 27:15 77:23 78:18 rebalancing 78:12 106:2 111:4,18 recall 3:14 107:17 recession 60:24 recipe 80:19 recognition 43:8 recommend 107:12 recommend... 3:21 5:22 96:22 111:11,14 112:13 recommend... 51:20 106:20 recommend... 109:24 record 101:1 recreating 55:15 red 115:5 redeploy 78:6 78:21 redo 111:20 reduce 54:18 55:3 111:12 reduced 60:13,16,19 reduction 39:17 reference 4:10 45:12 reflected 63:21 95:19 106:16 reflection 85:23 reflective 8:4 reflects 8:6 refresh 63:14 65:1 refused 90:18 regard 31:19 36:20 regions 91:17 regs 115:16	regular 9:1 96:6 regularity 5:13 reimburse 88:2 reinvest 90:2 reiterate 100:7 related 22:8,9 34:1 42:7 56:5 relationship 46:24 relative 15:12 15:20 24:12 37:6 47:19 52:6,21 54:6 57:1 60:7 61:11 70:18 79:10 80:10,17,21 83:12 97:14 108:20 109:20 110:20 relatively 12:1 15:17 62:9 107:23 relevant 24:21,24 25:1 49:20 82:12 religious 46:3 66:2 remain 10:1,2 14:1 remainder 6:20 remained 109:22 remember 10:21 86:24 90:14 removing 31:11 renewed 43:19 repeatable 20:12 96:17 replace 6:23 32:17 65:3 replacement	32:19 replacing 3:24 report 19:9 64:1 68:18 reported 55:12 64:7 reporter 1:13 117:12,19 reporting 1:21 68:17 108:16 reports 58:5 58:8 Representa... 2:11 representing 27:12 73:4 represents 17:11 reproduction 117:17 require 106:3 research 12:14 19:13 20:16 46:21 47:7 66:21 67:2 68:1,7 69:13 70:13 73:23 74:18 97:1 researched 49:1 99:16 resource-re... 109:11 resources 19:17 respect 63:3 90:7 respectful 114:15 respective 55:21 responsibili... 18:5,18,23 responsibility 74:11 responsible 43:9 65:24 rest 7:3 10:14 restriction 66:4,6,7 restrictions	28:11 restrictive 28:17,19 result 25:18 results 65:11 retail 45:5 71:24 retailing 61:2 retain 68:23 retire 75:13 retires 69:2 retiring 75:12 return 37:18 return 5:4 13:8 33:3 35:1,5 70:9 80:15 98:22 return-on-c... 76:24 returns 4:24 13:18 15:23 17:6 37:14 84:2 85:9 85:14,24 92:13 96:4 96:13,14 reval 106:17 revenue 56:5 revenues 52:1 reversion 56:13 64:22 review 14:12 27:21 30:9 65:11 113:2 reviewing 14:18 18:21 63:7 reviews 30:6 RFP 6:20 9:6 14:18 28:9 44:23 63:7 66:12 RhumbLine 106:18,21 107:10 Rican 63:24 right 6:16 7:6 8:3 9:11,12 9:22 11:4 14:15 14:1 14:17 31:13 31:18,21 32:2,12,23	35:1,19 36:17,23 38:9 40:22 42:5,6 50:1 60:7 76:20 77:5 80:13 84:2 86:9 99:7 102:22 104:19 105:7 108:13 110:9 111:7 111:20,21 right-hand 15:19 19:16 27:10 37:17 79:19 rightfully 51:21 risk 10:18 14:24 30:8 31:2 33:19 34:1 35:7 35:10 50:12 51:5,12 57:8,19 58:10,14 59:22 61:2 62:16 63:9 63:12 65:5 70:11 73:17 73:19 78:8 78:12 79:7 79:10 80:2 80:3,4,14 80:15,18 83:15 86:7 96:10,10 107:21 risk-adjusted 58:1 risk-control... 27:2 risks 64:15 79:20,22 81:1,2 111:13 risky 62:8 road 34:9 robust 8:5 103:15 role 10:12 47:8 69:11

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 12

74:24 75:22 96:3 roll 86:20 97:22 rolling 50:8 80:23 82:3 82:3 93:5,6 rookie 84:15 room 1:15 9:17 11:21 35:4 39:11 42:21 66:17 103:21 rooted 94:24 roots 46:16 rotate 71:11 rotating 71:10 roughly 4:2 92:20 112:6 113:19 RPR 1:13 117:11 Rubin 2:5 3:6 3:9 7:4 10:16 11:14 32:24 33:11 33:14 34:7 34:14,19 35:12,20 36:7,10,15 38:1 39:19 40:10,16 42:7,14 98:5,12,16 98:22 99:3 99:7,20 100:14 101:5,10 102:4,13 103:5 104:8 104:15,18 105:6,12,20 109:2 110:13 111:8 112:12,22 113:3,12,22 114:16,19 114:23 115:2,4,9 115:13 116:3,14	Rules 1:18 ruling 57:23 run 16:18 32:5 46:8 65:1,4 67:1 104:9 running 92:7 runs 18:7 Russell 8:1 53:4 57:15 59:20 61:21 <hr/> S S 2:1 21:1 S&P 8:17 14:23 15:20 29:21 34:6 53:4 58:11 60:12 70:10 74:4 77:18 sake 82:20 sale 91:1 sales 16:13 65:12 Sandy 28:12 saw 88:7,15 94:20 102:20 saying 37:11 39:21 43:3 56:10 71:18 82:5 103:22 says 29:10 37:19 scale 85:5,6 89:24 90:8 101:21,24 scan 30:9 scenes 13:2 scepticism 86:5 schedule 4:6 39:17 scheduled 3:15 schemes 47:12 School 74:19 science 74:19 74:24 screen 55:19 57:14 screened 29:1 29:2	screening 28:24 screens 57:16 seasoned 19:4 SEC 29:13 90:17 second 3:7 7:16 20:6 21:3 25:14 26:21 39:3 78:11 80:16 85:16 105:16 112:15 secondly 85:5 86:3,18 sector 27:13 49:14,21,22 50:2,2,7,16 50:17,18 55:22 60:5 72:18,20 73:5 85:2,6 85:18 86:24 92:5 97:11 97:11 101:11 sectors 56:1 60:3,11 73:10,18 97:14,16 see 5:14 12:20,23 14:4,9 15:4 15:15 16:11 17:6 18:10 19:16 20:1 21:1 25:7 27:9 28:7 34:7 36:24 37:5 48:9 54:6 55:23 59:15 61:19 80:15,23 81:6 97:8 98:22 109:1 115:4 seen 55:15 61:2 108:24 sees 48:24 select 25:16 55:9 105:10 105:11,12	selected 11:7 selecting 48:6 selection 21:20 23:22 25:20 26:22 73:20 78:10 104:2 selector 35:17 selects 30:5 sell 48:11 57:16 58:22 59:4,7,13 62:17 76:16 sell-side 24:10 51:19 51:23 52:2 63:18 seller 91:2 Sen 19:7 senior 19:2 46:14 sense 15:1 72:1,6 104:7 108:6 112:1 sensitive 66:1 sent 12:18 sentiment 24:8 95:2 sentiments 24:7 25:6 52:10 separates 31:20 September 14:19 sequential 76:13 series 48:24 serious 31:9 serve 19:12 service 1:21 14:3 SERVING 1:24 set 3:22 20:14 28:13 31:22 67:11 96:15 104:5 sets 13:17 seven 114:12 shade 21:5 share 76:15	89:20 shared 67:4 shareholders 68:19 85:15 90:4 sharing 18:20 sharpen 40:4 40:5 Sheedsa 12:12 13:15 16:8 18:1,5 19:9,13 21:10,14 26:17 Sheedsa's 18:2,13 sheet 58:6 64:8 shift 15:18 114:19 shock 115:22 short 12:1 22:10 64:21 83:15 show 12:22 15:14 17:23 22:4 25:5 36:19 showed 96:11 showing 61:5 73:3 79:6,7 80:9 shown 4:19 shows 20:16 25:18 54:5 62:13 side 16:13 19:16 27:10 29:9 37:10 37:17 44:21 46:1 48:11 49:18 51:12 64:18 79:7 84:14 85:16 86:20 87:9 95:13 97:9 104:10 116:9 sidelines 107:10 sides 63:15 signal 31:20 31:21 51:14	52:12 57:17 58:19 59:6 62:18 signals 50:21 62:7,18 significant 64:6 94:13 94:20 99:19 110:8 114:6 significantly 59:10 95:20 95:22 110:23 similar 5:1 26:2 34:2 108:1 similarly 5:8 11:22 simplicity 82:20 simplification 82:15 simplified 22:4 single 5:2 22:10 25:10 32:9,9 33:22 37:16 37:20 57:2 70:17 71:23 Sinking 1:2 1:11 sit 105:14 sitting 40:10 107:10 situation 88:8 91:9 six 16:11 20:4 21:2 22:13 23:21,21 27:19 six-month 46:20 sizable 6:6,8 skeptical 51:21 skill 13:17 37:15 73:7 skills 37:11 skip 81:9 skipped 82:10 Skyward	53:11,19 Slash 114:21 sleeve 11:4 74:8 76:18 79:8,12 sleeves 79:15 83:9 slice 11:9 slide 14:9 17:11,22,23 19:21 20:16 23:10 26:18 Slight 96:5 slightly 81:10 108:20 111:16,18 SMA 28:15 small 5:12 8:2 8:3,5,8,11 8:12 28:20 32:1 66:6 100:6 114:5 smaller 62:10 88:12 100:17 smart 103:6 snapshot 61:8 Solicitor 2:11 solid 114:11 Solutions 53:12,19 somebody 35:16 71:18 73:7 somewhat 81:21 sophisticated 13:21 sorry 23:14 36:16 45:3 63:1 99:5 sort 80:7 95:12 96:23 107:5 sounding 19:12 space 3:23 9:10,21 37:1,5 38:2 39:3,23 84:20 97:4 107:8 108:5 spaces 38:15	speak 10:3 specialist 71:9,14 specialized 74:16 specific 27:8 31:4 32:19 32:24 57:8 114:13 specifically 18:12,14 19:16 spectrum 71:6 speeds 89:21 spend 43:4 45:1 74:22 76:1 85:17 85:19 Spends 74:20 spent 75:12 split 45:4 100:24,24 splitting 41:17 spoke 50:23 52:23 spread 85:8 100:6 spreads 26:2 Sprint 87:6 stable 21:3 22:22 23:5 23:7 76:23 stack 37:14 staff 42:24 stage 20:14 24:17,19 61:1 67:11 84:15 stages 22:14 23:21 60:21 60:23 stamp 45:11 standard 5:1 82:21 standpoint 97:21 staples 49:20 start 38:20 44:11 45:9 47:6 65:16 69:17 70:7
---	---	---	--	---	---	---	---

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 13

109:23	91:15	streams 96:4	87:12	T 117:1,1	team 17:9,11	68:20 83:15	103:1,7
110:5	103:21	STREHLOW	sudden 64:1	T-mobile	17:15,18,20	110:7	104:13
started 47:1	104:1,2	1:20	suggest 99:14	87:11	18:4 19:7	terminated	106:2
47:17	stock-specific	strength	suggesting	tab 3:12	19:13,22	115:11	think 4:22
starting 45:2	57:19 59:22	19:18	100:24	67:14	20:19 27:1	terms 7:15,16	5:6,8,21,22
56:19 63:19	stocks 8:17	strike 91:11	SUITE 1:21	106:20	27:21,23	22:3 63:9	7:15,17
94:15,16	8:19 25:17	strip 15:5	suited 5:6	table 13:12	28:3 30:6	71:15 75:7	8:10,14,16
98:12 99:12	25:22 26:6	strong 48:3	Sullivan 47:7	110:13	44:20 45:2	75:24 77:13	8:20 9:11
State 1:17	26:8 48:7	52:15 56:21	superior 39:1	113:3	46:14,16	80:6 81:17	9:14,17
stated 39:11	49:10,17,19	57:4,11	103:11	tag 101:16	70:15 73:21	82:19 86:15	10:10,14,20
39:17 66:10	50:6,16,24	59:4,5	supervision	take 4:3 6:11	75:10	87:7 94:22	10:22,23
statistics 28:7	51:3,4,5,7,9	61:12,14	117:19	6:12,13,14	teams 13:14	96:12	11:2,3,6,22
stay 31:7	51:12 52:13	64:10	supplier	6:14 10:18	17:16 38:12	105:22	11:24 12:8
43:21 84:17	52:20 53:9	strongly	53:20,22	13:6 21:7	tech 16:13,22	106:2	13:4,9,14
stayed 46:22	55:9,20	60:14	supply 57:17	26:10 28:12	technical	110:20	14:11,24
steadier 5:4	56:10,14	struck 81:16	62:18	29:18 30:17	95:1	test 48:12	15:3 16:1
steal 114:14	57:6,7,18	structure	support 47:9	36:19 38:21	technology	49:4	16:20,21
stenographic	57:18,19,23	9:12 28:1	57:24	42:4,24	49:11,16	tests 51:11	28:17 31:17
117:6	59:12 60:18	68:13 70:4	supported	43:1 68:20	60:14,16	55:18	32:14 34:24
step 6:14	61:6,15	80:1 82:13	63:18	78:5,20	87:18	thank 12:19	35:23 40:18
10:10 20:2	66:5 73:1,5	83:4,23	supports	80:2 81:1	Telecom 78:3	26:16 29:7	48:18 62:12
26:19,20,21	73:19 81:2	85:3,4,5	17:22	83:14 91:24	telecomm	41:19 42:15	67:10 69:8
38:21 39:20	stone 68:7	86:16 88:19	supposed	96:18	71:11 74:16	42:18,22	70:12 71:1
58:15	stop 30:18	90:8,9	89:3	110:13	77:17,20,22	66:14 84:4	71:20,24
stepping 68:7	storage 76:8	93:24	sure 4:18	takeaways	84:19 86:15	84:11 93:2	72:22 73:15
steps 21:19	storied 44:1	101:17	10:8,20	22:4	103:4	93:11 94:4	75:5,15
stick 32:13	story 91:16	103:13	63:3 65:6	taken 42:19	Telecomms	105:19	81:3 83:19
sticks 48:24	straightfor...	structured	65:19 78:14	66:15 93:9	77:17	Thanks 17:10	85:18 91:21
sticky 89:20	15:17	19:11	94:9 104:5	94:6 117:6	tell 10:24	21:17 31:5	94:10,14
stock 15:4	strategies	struggled	surface 77:10	takes 34:10	13:23 15:14	themes 24:2	95:10,11,15
20:6 21:20	44:6,8	109:14,14	surprise	talent 68:23	35:14 41:12	theory 82:5	95:19,20,22
22:11 23:22	45:18,22	students	51:17 52:17	68:23	115:11	101:14	96:3,15,22
24:9,12	70:19 94:23	46:20	59:6 62:7	talk 7:20 13:1	telling 36:21	thing 7:23	96:23 97:3
25:4,11,11	97:2	stuff 43:6	116:1	17:9,12	tells 25:11	13:4,23	97:17,21
25:20 26:4	strategy 3:22	58:9 113:1	surprises	26:13 28:6	ten 13:16	14:20 15:18	98:3 100:1
26:22 27:11	3:23 4:12	115:16	52:15 61:16	43:12 44:7	15:11 18:2	29:17 31:24	100:7,8,16
29:10,12	5:6 8:23	style 5:16	61:17	49:10,11	32:6 43:20	32:15 34:16	101:2,5
32:3 33:21	12:4,14	72:3 77:10	suspect 110:8	55:8 67:2	59:19,20	39:7 65:6	102:6,10,18
33:22 47:11	14:6,17,24	79:18	sustain 90:3,8	67:12 68:2	92:21	67:18,18	103:10,12
50:7,22	15:17 17:22	styles 95:12	sustainable	68:9 69:2	ten-year	68:12 69:8	103:13
52:16 53:5	18:8 19:1	sub-10	85:21	69:16,19	114:12	72:17 75:9	106:22
55:21 57:2	19:24 29:18	107:19	sweating	70:3,20	tend 61:1	83:7 87:9	107:5,7,22
57:8 58:13	31:19 32:6	sub-portfolio	41:22	82:10 84:7	64:21	93:3 97:12	107:24
58:19 59:1	43:2,5,12	67:1 69:21	swinging	94:8 96:23	109:21	104:8	109:4,17,18
59:2,5,7	43:14 44:13	69:21	86:11	103:1	tending 52:9	things 14:15	109:20
61:10 62:20	47:21,24	sub-portfolio...	switch 87:1,5	talking 86:15	52:9	31:4,18	111:3,18,20
63:10,16	61:22 64:14	69:10	87:10 88:6	86:17 89:6	tends 60:22	34:8 38:21	113:6
64:4,12,17	67:12 68:10	subsequent	89:21	89:10	76:9,10,14	54:2 63:15	115:21
64:20,22	69:18 80:10	10:15 100:9	systematic	talks 58:16	76:17,24	69:10 72:4	thinking
68:17 70:12	95:15,18	108:23	22:1 33:24	target 110:24	77:6	74:2 76:16	69:23 72:5
73:19 76:13	96:13	subtract	systematica...	111:16,21	term 22:10	83:20 84:14	83:21 84:2
76:17 78:10	115:18	54:15	15:2 19:24	114:4	22:10 35:12	85:3 86:1	86:4
80:5 90:20	stream 5:4	suburbs 87:8	T	teach 74:18	52:10 64:21	87:18 97:9	thinks 76:11

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 14

76:21 84:7 third 21:3 26:19 39:7 50:23 113:8 thought 17:19 19:14 84:21 101:17,24 102:2 107:7 thoughts 66:9 69:12 106:12 three 3:11 4:1 4:9 6:11 10:11 14:1 18:12 21:4 22:19 24:2 24:2,16 38:21 46:14 54:8 56:14 56:18 57:14 60:17 61:20 80:11,12,13 80:22 81:12 82:9 83:11 83:13 88:12 90:14 93:16 96:17 115:23 three-step 20:1 three-year 82:3,16,17 82:18 83:5 93:6 throwing 48:23 thunder 114:14 tight 98:18 tile 15:12 37:21 tilt 21:21 78:20 tilts 77:10 time 5:17 9:2 23:3,10,17 27:14 28:5 28:13 30:12 37:2,16,20 40:17 43:1 43:5 44:11 45:1 48:7	55:11,14 56:13 62:6 63:3,4,23 64:24 74:20 74:22 75:17 84:12,17,24 85:17,19 89:15 90:13 90:15,19,21 90:24 91:6 91:7,11,14 91:23 92:23 93:5 99:10 101:4 106:23 107:24 108:4 110:18 113:7 114:15 times 10:24 63:12 81:11 81:14 86:5 timestamp 45:8 today 4:1 8:21 9:24 10:3 45:16 46:7 68:2 69:9 79:12 81:11 87:23 89:20 93:13 115:22 told 115:22 Tom 76:19,20 90:23 tomorrow 115:22 tools 30:8 47:14,18 65:5 71:22 top 15:11,19 22:8 37:21 49:7 57:14 59:19,20 70:17 71:18 80:21 87:20 88:10 94:18 98:24 103:8 107:16 111:7,21 top-down 16:16 48:7	50:13,19 topic 81:9 total 7:24 12:2 33:17 52:11 77:9 78:13,19 79:21 101:13 107:14 115:22 totally 82:12 touch 14:15 16:8 34:23 38:22 tough 41:9 87:17,21 tougher 87:20 88:20 track 101:1 tracking 37:13 38:7 38:7 60:6 79:7,10,20 80:4,14,18 trade 27:23 traded 104:24 105:5 traders 24:9 24:9 trading 18:17 20:11 27:22 28:1 91:8 transcript 117:8,16 transition 3:21 translate 13:18 80:5 transparent 27:3 traps 31:22 travel 104:12 Treasurer 2:4 tremendous 13:6 35:10 triangle 74:6 tricky 82:19 tries 65:10 trillion 67:21 trim 53:14 59:18 110:1 trimmed	100:20 tripled 98:21 tripling 99:19 true 13:6 14:1 31:7 truly 17:5 68:19 69:23 69:24 93:21 95:7 Trump 109:18 Trump's 63:16 trust 43:23 46:6,8 try 32:19 41:3 54:2 75:2 82:8 83:15,17 trying 11:15 32:16,20 35:24 50:11 61:8 72:19 72:21 82:23 83:1 85:19 90:15,23 95:24 98:6 101:7 102:11 turn 8:6 14:8 19:20 21:14 26:18 46:13 55:8 70:2 75:13 79:2 84:6 104:6 Turnaround 21:5 turned 90:19 turning 12:16 15:13 16:5 turnover 75:10,11,18 turns 4:23 tweets 63:16 twelve 18:3 56:11 58:21 60:12,17 Twenty-eight 70:16 two 1:14 5:17 16:12 18:4 18:14 19:2 21:19 23:16	35:23 39:20 45:20 54:7 72:2 74:2,5 76:6 77:24 79:3 85:3 85:22 86:16 86:22 87:16 87:20 88:10 88:11,14,17 89:4 90:14 94:21,23 95:13 97:15 98:7,21,23 100:22 115:23 two-thirds 10:2 54:7 type 31:4 74:4 76:18 76:24 83:4 88:7 types 56:23 72:11 77:11 typically 107:17 <hr/> U <hr/> U.S 30:3 31:15 38:4 38:8 71:1,3 71:8 73:24 74:4 80:10 86:14 88:16 Uh-huh 46:11 UK 108:3 ultimately 72:12 75:7 77:7 98:3 unattractive 21:23 25:17 26:4 underlying 57:10 58:6 58:9 underneath 18:13 underperfo... 50:24 51:6 51:10 underperfo... 26:7 111:12 underperfo... 26:1 52:18	56:18 61:21 107:21 underpriced 53:6 understand 75:2 85:20 97:18 103:2 understand... 74:23 98:6 understands 74:19 understood 90:22 undervalue 110:10 undervalued 109:22 underweight 50:15,20 53:7,16 59:12 60:21 underweigh... 53:22 73:18 undue 35:7 unfolding 88:15 unhappy 96:20 unintended 78:9 union 100:19 unique 13:9 15:1 49:13 70:18 71:15 universe 20:4 27:6 29:20 29:21 37:7 38:5 University 46:18 unlimited 87:24 unrelated 81:9 unstructured 19:11 28:1 upgrades 75:15 upper 76:7 76:20 79:19 upside 35:13 50:11 84:1 upside/dow...	36:3 upstairs 41:21 use 7:17 22:7 23:23 24:15 24:16,20 69:12 71:17 71:20 76:6 87:15 uses 76:2 usually 58:2 64:15 utilities 73:12 76:21 utility 49:11 76:20 <hr/> V <hr/> Val 43:11 44:19 45:2 63:6 valuable 49:19 valuation 24:11 25:6 56:20 71:19 85:6,16 86:6,12 90:11 91:5 91:8,10 92:1 valuations 61:23 value 3:22 4:23 5:11 6:24 8:13 13:13 44:13 47:10 51:22 72:6,9 73:8 77:6 78:15 99:24 109:18 valued 4:21 values 14:1 62:3 variable 23:1 variety 22:23 23:23 99:11 VASSAL 46:13 54:14 55:2,7 63:1 63:11 vast 80:3 110:7	vehicle 9:20 15:21 verbalized 110:21 Verizon 84:20 86:22 87:1,2,4,5 88:3,17 99:17 versa 87:4 88:4 verse 49:11 versus 4:24 9:17 24:13 25:12,14 31:10 32:4 33:19,19 35:22 36:6 45:13 51:17 52:14,22 53:1 60:5 61:3 85:13 86:1 98:17 veterans 19:4 vetted 9:5,6 vice 12:10 87:3 88:4 view 17:13 68:7 92:10 92:11 98:1 views 102:20 virtual 89:18 visit 104:18 visual 16:9 volatile 57:17 volatility 5:1 5:19 23:1 78:15 95:21 96:12,13 vote 106:3 <hr/> W <hr/> wait 106:15 waiting 107:11 walk 16:10 17:2,7 19:21 21:15 69:17 wall 49:1 want 13:1 14:13 15:8 15:13,18 16:9,17,19
---	---	--	---	--	---	--	---

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 15

28:5 29:11	110:11	61:22	47:17 48:2	1.6 60:2	75:19 94:13	107:13	108:15
38:22 39:14	weighting	world 13:21	49:8,24	1.7 80:4	94:19 98:9	108:19	5.5 46:8
63:2 65:6	59:23 60:14	16:20 20:19	50:5,9	10 1:8 6:19	99:12,22,22	25 4:9 10:5	50 17:17
65:18 72:22	weights 27:12	35:1 92:11	55:12,16,16	8:2 9:19	101:1	15:22,24	22:16,18
75:14,16,18	27:16 52:24	Worldcom	55:16 56:15	40:9 45:14	102:18,20	39:12 40:1	27:14 99:13
82:20 88:1	53:9 55:19	58:7	56:18 61:20	54:14,15,18	104:13,14	94:17	113:19,23
103:7,21	62:20 78:9	worry 41:24	61:22,24	54:19,23,24	104:17	250 37:2	500 8:17,17
104:1	well-balanc...	worse 58:20	62:11,22	55:8 57:13	18-plus 98:24	250-plus 32:3	15:20 29:22
106:14,22	54:3	worth 11:6	64:14 74:9	60:11 64:4	18940 1:22	26 108:14	32:3 52:19
112:22	well-known	wouldn't	75:13 80:11	79:4,6,10	19 4:7 62:12	27 83:9	53:4 70:10
114:14,14	8:19	12:16 14:10	80:12,13,13	79:14 94:16	1956 46:6	28 66:24	74:4 77:18
wanted 4:16	Wellington	41:20	80:22 82:9	99:12	1998 47:5	70:21 73:23	88:3
14:3 15:14	66:17,19	wrap 38:17	86:21 87:23	10:15 1:16		74:1 75:19	504-4622
36:19 62:2	67:10 68:5	wrong 33:9	88:7,18	100 7:1 14:21	2		1:23
63:3 87:5,9	69:1,12	86:6,7,10	89:13 90:14	37:15 39:12	2 3:12 12:17		52 55:22
87:13	71:17 74:12	91:13	92:21 93:16	1000 53:4	12:20 25:13	3	54 1:21
wants 33:9	75:13 84:13		109:5,13,22	57:15 59:20	3 14:9 44:14	53:16 59:24	56 66:24 68:4
Warner	94:14 95:5	X	yield 5:10	61:21	53:14 59:18	60:6 77:17	73:22
89:15 90:15	96:19,21	X 92:20	49:15,18	11 25:3 26:2	60:1,4 80:3	77:18 114:3	
90:20,23	97:9		56:21 61:13	44:12 48:2	2.2 111:19	30 19:5 56:1	6
91:1,6,7,11	Wellington's	Y	76:23	58:16 79:4	20 4:2,6 12:1	56:2 75:12	6 17:11,23
91:14	4:7	yards 99:12	yo 77:10	80:7 84:13	17:23 39:17	92:24	46:7 48:15
warranted	went 14:5	99:13,13	York 90:17	116 1:21	39:22,22	3000 8:1	6.16 114:9
110:17,18	38:23 92:19	yeah 4:18	younger	12 25:18	40:1 41:3	34 6:4 33:4,8	60 45:16
Washington	weren't 45:19	11:20 28:16	84:14	55:16 58:22	42:24 45:6	34:15	46:15 99:13
91:19	115:10,13	36:23 38:19		12-month	49:8 50:9	35 4:13 54:22	61 43:17
watch 115:7	wheel 49:6	40:6 46:12	Z	50:8	52:11 55:16	60:17	62 23:12,14
water 82:22	whisper	81:20 98:20	zero 75:14	12.9 59:18	56:4,7	36 44:2	23:15
way 4:5 10:9	51:14 52:12	99:18 103:9	112:7	12:28 116:15	66:11 92:8	360 43:22	65 4:11 23:15
25:20 36:10	52:16	104:3 109:1	Zilko 12:9,9	13 6:7,15,17	92:9 94:12	37 33:8	54:16
38:11 41:11	wide 73:6,7	110:14	12:20 14:8	6:18 10:4	112:6,8	39 4:13	67 54:16
41:13 43:7	willng 41:15	year 5:10,10	31:17 33:7	26:19 34:15	20-plus 62:23		68 6:5
70:10 83:9	83:22	5:10 7:19	34:23 36:9	110:5	74:9	4	
84:2 96:24	winning 6:19	14:19 35:5	36:18 38:3	14 36:3	20,000 48:23	4 15:13 53:17	7
99:23 100:3	7:1	35:6 43:20	38:14,19	15 3:5 12:2	200 17:14	70:7,15	7 9:19 19:21
ways 22:21	wireless	52:19 53:15	39:20 40:6	14:15 25:19	2002 47:23	88:2	54:5 73:21
we'll 9:15	86:17,20	53:21 60:15	40:8,14,17	25:24 43:14	61:22 66:1	4.43 113:24	75:11 110:6
we're 12:23	wisdom 8:16	82:7,21,22	41:1,9,20	55:12,16	2005 20:14	4.5 107:13	70 7:2 21:8
64:11 89:6	withing 27:19	82:23,24,24	42:3,11,16	59:14 64:13	2007 44:10	108:17	39:18 41:5
101:11	work 13:22	83:3,14		74:9 90:21	44:10 45:10	4.91 113:20	41:6 100:12
we've 7:18,19	17:18,21	84:13	0	150 53:20	2008 33:7	113:24	107:17
32:5,7	18:2,8,11	106:22	0.2 65:15	16 20:17	52:18 59:11	40 53:15	70-plus 50:4
46:23 47:23	18:14,19	109:24	07 61:24	36:19 44:5	2010 44:12	54:17 92:24	75 54:22
weather 3:16	19:19 38:1	110:5	08 33:3 44:10	44:13 45:4	2011 60:15	450 37:2,22	100:13
33:2	39:15 49:1	year-to-date	45:10 62:2	45:12,14,17	2012 45:12	38:1	75/25 100:24
Wednesday	84:18 87:3	114:8,10	09 44:10	61:7	2014 53:10		
1:8	worked 49:7	yearly 82:1	45:10 61:24	16th 1:15	2017 1:8	5	8
week 64:22	working	years 13:17		17 98:7,24	21 108:12	5 16:5 25:23	8 20:16 26:7
weight 33:21	13:16 40:18	15:11 18:2	1	99:22	111:7	25:23 26:5	79:9
50:17 53:12	49:23 66:3	19:5 20:18	1 14:24 27:13	18 6:20 39:16	215 1:23	35:3 45:2	80 7:2 12:23
56:13 78:7	works 26:13	25:19,24	32:4 33:21	40:9 41:5	22 108:19	45:13,14	14:21 21:8
83:13	26:15 35:15	32:6 43:15	35:6,11	41:18 59:21	111:6	46:13 53:17	83:12 93:7
103:22,23	40:19 48:6	43:17,19	53:13 67:15	60:12 61:19	23 43:19	73:2 75:10	112:10
		45:20 46:15	96:10,11		79:12	79:14	80/20 10:8

Sinking Fund Commission In Re: May Meeting
May 10, 2017

Page 16

11:11							
100:24							
9							
9 22:4 23:10							
55:8 76:1							
90 8:2 107:17							
98 47:15							
99 47:15							
99.9 30:11							