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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A P P E A R A N C E S

COMMISSION MEMBERS:

Rasheia Johnson, Treasurer - Acting Chair

Bill Rubin

ALSO PRESENT:

Christopher R. DiFusco, CIO, PGW

Alex Goldsmith, PFM Asset Management

Marc Ammaturo, PFM Asset Management

Representatives from City Solicitor

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MS. JOHNSON: Good morning.

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

MR. RUBIN: Motion to approve.

MS. JOHNSON: I guess I should second that.

MR. RUBIN: All in favor?

(Ayes.)

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

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

The idea here would be, at PFM's recommendation, would be to transition out of a growth and value strategy set up at the large cap space to a core strategy. This would necessitate replacing O'Shaughnessy and Alger with one of the three firms being brought in today. We would allot them roughly 20 minutes each, you know, give or take with some Q & A. I know Alex and Marc have some comments.

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

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

MR. GOLDSMITH: Yeah, sure. The memos that we have shown here, it's just the same memo we had prior. It details our rationale for moving towards a core approach for valued growth. I think if we were to look at it, there were turns if you had an equal value growth, you know, allocation versus just a core. The returns are very similar. It's the volatility, the standard deviation of a single core fund is lower. You know, the impact of a portfolio is one obviously steadier return stream. When you have got benefit payments coming out on a monthly basis, I think the strategy like that is better suited for that plan, you know.

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

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

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

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

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

Again, it is to replace your growth and value manager. It doesn't mean this mandate needs to go 100 percent to the winning bidder. They can get 80 percent, 70 percent. And the rest would go, in our opinion, should go passive.

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

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

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

First part -- oh, the large cap/small cap discussion. So another thing we did, the total plan benchmark -- the planned benchmark for equities is the Russell 3000 index, which is about 90 percent large cap, 10 percent small cap or so. Right now the plan is overweight to small cap. That's reflective of, you know, our belief that small caps will deliver more robust growth over the intermediate turn. It reflects our discretionary investment committee's position, we have been overweight in small cap in our discretionary accounts.

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

We will focus on the intricacies of the strategy they allow these funds to outperform net of fees. That's the key that we are going to be looking for is either regular or over a long period of time outperformance net of the management fees we are paying or that you would or clients pay.

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

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

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

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

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

MR. DIFUSCO: Sure. And I think your question, Bill -- I remember you brought it up, I think, at the March or the January meeting -- it's a good one. It's one that I -- I think Alex will tell you -- I asked him multiple times about the, you know, benefits of being active at all in large cap. So, I think your question is on point. And I think to Marc's credit, you know, he's right that if we have a sleeve of -- if we were to choose or you were to choose, rather, one of these managers, I think it is worth discussing once they are selected, we get closer to contracted funding, just how much of it should be -- you know, how much of the slice that they should get. And should we look at something more like an 80/20, you know, passive.

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

MR. RUBIN: Okay.

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

First one?

MR. GOLDSMITH: Just go in the order here.

MR. DIFUSCO: Yeah.

(PineBridge presenters join the room.)

MR. GOLDSMITH: Similarly, I think get to some diligence calls that we had on our end with Chris as well, I think we would like to keep this relatively short, you know, about 20 minutes total. Maybe 15 minutes of presentations, a few minutes for questions. Really the point of you to focus on the elements of the strategy, portfolio management, portfolio characteristics and how that can lead to outperformance then of fees. We are familiar with the organization, so I think we can really gloss over that.

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

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

MR. DIFUSCO: Thank you.

MR. ZILKO: On page 2, you will see an overview of our firm. We will be pretty brief here. This is going to show you what we are. You'll see we're an $80 billion global asset management firm. A break down of our assets across the board. But what we did want to talk a little bit about is who we are behind the scenes. If you were to ask anyone familiar with PineBridge, I think the first thing they would say is we are dynamic and growing firm which is true. But we also take a tremendous amount of pride in helping our clients both meet and exceed their return objectives.

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

Our clients across the board are some of the most sophisticated investors in the world. Obviously, we would love to work with you folks in Philadelphia. One thing we can tell you is as we continue to evolve as a firm, we are going to remain true to our three core values, which right off the bat are investment excellence, client service and collaboration. What we wanted to do is just pause and see if there is any questions on firm. We went through that pretty quick; otherwise, we will move to strategy.

(No questions.)

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

Strategy objective right off the bat. When we were reviewing the RFP that you folks put out back in September I believe of last year, first thing we noticed was you were looking for a manager to outperform by about 80 to 100 basis points. That is exactly what we have delivered above and beyond the S&P since inception of the strategy with a 1 percent risk budget. I think we are a bit unique in a sense because we are quantitatively driven, systematically applied. And I think that's a bit different than some of the other bottoms up stock. You will see what we are looking to do is strip the human emotion out of investing. We will look into that when we go into process a little bit more, but pause there.

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

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

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

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

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

Now, what most of our peers will do is they will do a top-down analysis. They will decide they want to add healthcare to a portfolio, and then they will run bottoms up and decide the best company that they want to add. We think of the world very differently. We actually think that a fast growing healthcare company should be compared to a fast growing tech company rather than just its industry peers. And why is that? Because what drives the performance of a fast high-growth company and a mature company are very different. And we will walk you through that. But that's important to keep in the back of your mind because life cycle categorization is truly the engine that propels our portfolio returns. And you will see that as we walk you through a bit further.

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

MS. FARADAY: Great. Thanks, John.

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

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

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

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

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

So, now we will turn your attention to slide 7 to really kind of walk through how the team applies the process. And John mentioned this, but process is key for us. We methodically and systematically apply for a strategy in the three-step process you see in front of you.

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

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

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

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

How do we do this?

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

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

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

MS. ALI: Thanks Kate.

So, we will go into some details about the first two steps, especially categorization and how we do the stock selection that helps us tilt the portfolio towards names that we find attractive and away from the names that we find unattractive. And then we will get into more portfolio construction of how we built that portfolio while it's still keeping systematic exposures close to the index.

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

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

And then we also have ways to differentiate between cyclical and stable companies. We look at, again, variety of different measures to proxy cyclicality; namely, volatility of growth rates. How variable is the growth? How fast -- how different are the growth over time to distinguish between cyclical companies, that means they are achieving their growth in a more cyclical manner than stable companies, which are -- the growth is achieved in a more consistent and a stable manner.

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

Once we have the categorization, once we have pegged or identified companies into one of these six groups or six life cycle stages at any point, we then do the stock selection. And we use a variety of different criteria or factors in groups. We call these groups of factors or groups of criteria as clusters. So, there are three main themes or three main ideas of how those criteria or factors are grouped.

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

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

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

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

For example, price to book is a more relevant measure for mature categories. And it's not a relevant measure for high growing fast growing companies.

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

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

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

So for example, for exceptional growth, the most attractive stocks outperform by 5 percent. That 5 percent number is an annualized existing number for 15 years. The most -- the least attractive underperformed by 11 percent. And we have similar spreads an differentiation between attractive and unattractive stock performance for other categories. And overall, we have 5 percent outperformance for the most attractive stocks. And minus 8 percent underperformance for the least attractive stocks.

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

MS. FARADAY: Great. Thank you, Sheedsa.

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

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

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

So, we actively as a team review all of the exposures before trading. We do extensive pre and post trade analytics. And the team is constantly monitoring the portfolios before and after trading with structure and unstructured meetings and, obviously, all communication between the team.

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

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

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

MR. DIFUSCO: It was not --

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

MR. DIFUSCO: Okay.

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

They are already screened out.

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

MR. DIFUSCO: Would have a material impact.

MS. FARADAY: Correct.

MR. DIFUSCO: Okay. Thank you.

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

Is there any human intervention?

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

We then categorize every name within the life cycle. When we do the optimisation, we are obviously very cognisant and monitoring portfolios more macro news and events, not just here in the U.S. but globally. We very rarely intervene with names. We will go with what the model selects based upon the optimisation where the team reviews the optimal portfolio.

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

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

MS. FARADAY: Correct. Unless there was some very extreme news. We did -- a recent example in one of our global portfolios, not this portfolio, we were obviously very cognisant of what's going on with the French elections. And so, we decided from an exposure perspective to mitigate our risk and be neutral there. But that is really more what we do rather than name specific type things.

MR. AMMATURO: Thanks.

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

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

MS. FARADAY: Right.

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

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

MS. ALI: And the other thing is also

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

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

MS. FARADAY: Right.

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

MS. FARADAY: Right.

MR. RUBIN: So, you said no specific

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

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

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

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

MS. FARADAY: No, that's fair.

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

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

Of course, there is kind of systematic

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

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

MS. ALI: Yes, exactly.

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

MS. ALI: Yes.

MR. RUBIN: -- little bit of --

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

MS. ALI: Yes.

MR. ZILKO: We will touch on performance now. I think that's important also. In the world that we are right now with low return expectations looking forward, say if we are expecting, you know, 5 percent out of equity markets. But we all know in this room you have return objectives that you have to meet year in and year out. That 1 percent of outperformance consistently without taking on undue risk across the core part of your portfolio is critical. And that's what we are looking to provide. Not taking on tremendous risk outside the benchmark, but just beating it by 1 percent consistently.

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

MS. FARADAY: Right. That's fair.

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

MS. ALI: I think two points to that. Our objectives and what we are trying to do is no different from a fundamentally managed portfolio manager, fundamentally managed active. If you look on page 14 upside/downside capture ratio, we are kind of doing exactly what you said. Outperformance in up market, protection in down market. Protection versus the benchmark.

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

MR. ZILKO: It's there.

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

(Laughter)

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

MR. RUBIN: I feel better now.

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

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

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

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

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

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

MR. ZILKO: In the large cap.

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

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

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

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

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

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

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

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

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

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

MR. RUBIN: How did you come to that?

MR. ZILKO: It was kind of two step. First, we were saying, okay, look if we cut it down by 20 percent down to 20 basis points, that puts us below everybody else in the space. We ran a pretty indepth analysis against what our peers are doing. 25 is on the low end. 20 is below most.

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

MS. FARADAY: Said sharpen your pencils.

MR. ZILKO: Yeah.

MS. FARADAY: So we did.

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

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

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

MR. RUBIN: Okay.

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

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

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

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

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

MR. AMMATURO: Okay. Thank you.

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

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

fine.

MR. AMMATURO: Easy for you to say.

MR. ZILKO: And then I'm fired.

MR. DIFUSCO: Kate, will take that over.

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

MR. RUBIN: Are you related to David Faraday?

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

MR. ZILKO: Somewhere along the lines.

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

MR. RUBIN: Absolutely.

MR. DIFUSCO: Thank you.

MR. ZILKO: Any other questions?

(No further questions.)

MR. DIFUSCO: Thank you very much.

(Brief break taken.)

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(Glenmede Presenters enter the room.)

MR. DIFUSCO: Thank you guys for coming in this morning to present to the Commissioner, staff and PFM. If you take about 20 minutes, give or take, and focus the bulk of the time on the approach and the strategy as opposed to the firm. I'm not saying don't hit something if it's important there, but spend an overwhelming bulk of your time on strategy and how you make money and stuff, that would be great.

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

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

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

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

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

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

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

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

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

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

Does that answer your question?

MR. AMMATURO: Uh-huh.

MR. CORON: Great. Yeah.

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

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

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

And then Alex joined us 11 years ago. His background was very strong mathematics. We used MatLab as our computer programming environment to do a lot of the historical analysis of what actually works in selecting stocks over time as well as some top-down industry grouping indicators. And do you still see a dotted line to fundamental analysts? We still have active dialogue with the analysts at Glenmede and also from the sell side. They provide us with continual new ideas to test and, hopefully, improve our process on an ongoing basis.

If you go to page 6, this is probably the most important page of the package. It is our five core principles. And this is -- we think these are what differentiates us from what others do.

I look at our approach as really fundamental insights with an objective overlay in what we do. I mean, I don't believe -- I'm not the one who believes in throwing 20,000 data series in a computer and sees what sticks on the wall. Every idea we work has to be researched, has to have an intuitive rational basis for. And then, only then, will we include it in our historical back test and optimizations and potentially in our process.

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

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

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

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

The third spoke, proprietary models to identify stocks more likely to underperform, this is what's really different about what we do. Not only do we have models to help us identify what stocks are more likely to outperform, we have multiple models that help us identify stocks at risk or stocks that are more likely to underperform. We found that sometimes the best criteria for identifying what stocks are going to outperform are not necessarily the best for identifying what stocks are going to underperform. So, we do these extensive back tests looking at what criteria helps you identify stocks that have some risk to the down side.

We also have a quantity earnings model. And we also have what we call whisper signal. This is a proprietary model that we developed in-house that looks at which companies are likely to have a positive versus a negative surprise this quarter. I know there are all these sell-side analysts out there. They have investment recommendations. And many people are skeptical of those and rightfully so. But we actually found value in looking at the behavior of the sell-side analyst. When do they make changes in estimates whether for earnings or revenues or growth rates? And also, we objectively assess which of these sell-side analysts have been most accurate in forecasting earnings for the company over the last nine quarters. And we look at them and where are they relative to consensus.

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

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

And the last spoke there, benchmark agnostic position weights, that's also a key difference of us versus other managers, particularly like index funds or enhanced index funds. We -- when you look at an index like the Russell 1000 or S&P 500, it's priced base. So if a stock is overpriced, it's effectually overweight in the index. If it's underpriced, effectively it's underweight in the index. And how we address that issue is we ignore the weights of individual stocks in the index.

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

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

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

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

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

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

MR. CORON: Jumping ahead into what we proposed originally, our proposed fee assuming a $75 million figure is approximately 35 basis points. So, we will handicap that and say 10 per quarter. If you took 10 basis points off of this, if you look at the green bars up above --

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

MR. DIFUSCO: This is on a quarterly basis.

MR. CORON: Correct.

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

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

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

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

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

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

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

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

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

And lastly, page 12, this is our sell discipline. This is very challenging for a lot fundamentally-oriented managers because they are in love with the stock. They have a courtship period, they fall in love with the stock. They put it in the portfolio after several months. It's hard to let go. We have a very strong sell discipline. If a stock hits a strong negative surprise signal or it's in the bottom point of all our sell models, we will force that stock out. No questions asked. We are not in love with anything in the portfolio. That has helped outperformance significantly. In fact, a quarter of our alpha since 2008 has come from being underweight the stocks that are poorly ranked in our sell models.

And if you go to pages 15, just taking a look at the portfolio, you will see that there is no holding in the portfolio that's more than one-half percent. Again, if something purchased 2, we will trim it. We have about 12.9 percent in the top ten names. If you looked at the Russell 1000, the top ten names is over 18 percent. I would argue we have less stock-specific risk in those names than the benchmark. The benchmark has a greater weighting and Apple between 3 and a half percent, Google and Microsoft both well over 2 percent. Amazon is now 1.6 percent.

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

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

Consumer discretionary, we are underweight. We are in the later stages of an economic cycle. Consumer discretion tends to do better in the early stages of an economic cycle or even at the bottom of the recession. We are much later in stage and they tend to not do, as well. We also have seen risk with the retailing industry. And again, battle of Amazon versus the brick-and-mortar.

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

On page 18, can see our annual performance. There are three years when our composite underperformed the Russell 1000 index since 2002. The years when the strategy works well is when valuations and earnings matter for investors. But in the years like '07 and '09 when had macro issues driving investor behavior.

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

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

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

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

MR. de VASSAL: I'm sorry.

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

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

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

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

One caveat, though, was this was a long time ago was Derrall Financial. It was a Puerto Rican financial institution. And all of a sudden -- every day we actually have a report that flags all of the biggest movers in the portfolio in the morning. And Darrell popped in there. And the stock was down, like, 10 percent. And we ended up looking at what was going on. And apparently, there was significant issue of fraud, that the earnings they reported were fraudulent in their off-balance sheet.

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

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

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

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

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

We have also managed impact, I guess, responsible portfolios. We mentioned environmentally sensitive portfolios since 2002. Branch of many portfolios religious organizations. We are very familiar with working with restriction lists. And again with our process, because we own a hundred-plus stocks, a small restriction, you know, reasonable restriction list will not have much impact on the performance on that.

MR. CORON: Other thoughts in closing?

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

MR. DIFUSCO: Thank you.

(Brief break taken.)

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(Wellington presenters enter the room.)

MS. O'GANNON: My name is Kristina O'Gannon. I'm a business developer at Wellington Management. I am joined by Brad Huggins who is Investment Director for our Research Portfolios as well as Andre Desautels, who is one of our partner of the firm and one of our global industry analyst. One of the 28 of 56 global industry analysts that run a sub-portfolio of the large cap research portfolio I will talk to you about.

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

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

So, we are a large asset manager. All we do is we do one thing and one thing only, and that is manage assets for client. There are no competing agendas. We are a global firm, so we are rather diverse with over a trillion dollars in assets under management. We do equity as well as fixed income. But at the core of our firm, our investment model, what we really focus on is this proprietary research. That is going to come to light today when we talk about the portfolio.

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

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

I mentioned at the beginning Andre is a

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

MR. DESAUTELS: Or die. Whatever comes first.

(Laughter)

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

What we are going to talk to you about, Brad, will start and walk through kind of the overall strategy and the philosophy. And Andre will talk about -- bring it all to life to you, how an analyst actually implements their sub-portfolio of the -- their sub-portfolio within this overall portfolio. How we are thinking about it is we are truly a firm that believes in collaboration. We are truly a firm that aligns our interest with clients.

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

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

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

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

What does that allow us to do? Allows us to get breadth and depth in coverage. So even though this is just a U.S. portfolio, think about a company like Nike. If you are Nike, you are looking at buying Nike in the U.S. portfolio. You need to know what is going on with Adidas. So, our analysts look across the globe and generally across the market cap spectrum at their industry and then identify the best ideas within the U.S. context and what we would own here.

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

Number one, we are not using blunt tools to analyze a single industry. Banks are very different than retail companies. We think it makes sense to look at them differently.

And then number two, it means we get diversification of style in the portfolio. Kristina mentioned that one of the things you've been thinking about is have a growth allocation and value allocation, does it make sense to consolidate that into a core context. We are actually doing that in this portfolio. We have some that are growth, some that are value, some that are quality, some that are contrarian. You actually get different types of investors in the portfolio. Ultimately, what you get is a core portfolio.

Any questions there just to the very high level?

(No questions.)

MR. HUGGINS: Okay. One thing I should mention is the portfolio is sector or industry neutral. We are not trying to make allocation decisions from a sector or industry perspective. We are not trying to say, you know, energy we think is going to outperform. Now we want to go overweight energy. We actually neutralize that decision and then let the analyst pick the best stocks in their industry. The reason why we do that is the chart on page 5.

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

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

Page 7 is the team. So, you will notice that we have got 56 people on our central research group. Only 28 manage in the large cap U.S. portfolio. And actual question is, how do you go from that broad of a group just to the 28? It's a function of two things. Number one, their coverage assignment. Do they have coverage that lines up with an S&P 500 or U.S. large cap type of mandate? And then number two, you will also notice that the people with a triangle to the left of their names who are the people in the portfolio that manage a sleeve, they are generally 15, 20-plus years of experience. And that's by design. Because the last responsibility of an analyst will earn at Wellington will earn at the firm is the opportunity to manage assets on behalf of our clients.

I mentioned before, they are deeply specialized. So, Andre focuses on Telecomm. We have another analyst that focuses on biotech. He actually used to teach and do research at Harvard Medical School. So, he understands the science. Spends a lot of his time reading through medical journals. He will meet with CEOs and CFOs of companies. He oftentimes likes to spend his time with some of the R&D folks understanding the science. Clearly, a role that would be challenging for a generalist portfolio manager or even a quantitative model to try and understand some of the nuances between these biotech companies.

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

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

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

In terms of the mechanics of the

portfolio, spend a few minutes there. Page 9. So, I mentioned each analyst uses their own framework for analyzing their companies. Here we have got five examples. Andre in a moment will go into describing his in a little bit more detail. But let me use two examples here.

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

If you contrast that with Tom Levering in the upper right, Tom focuses on utility. He covers utilities for us. He thinks that the market generally over pays for high growth and high yield and under pays for stable growth. So, he tends to have more of a return-on-capital type focus. Maybe describe him more as a quality-oriented investor. And his quality orientation helps to diversify John's growth bias.

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

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

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

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

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

Any questions there just on the mechanics of the portfolio?

(No questions.)

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

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

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

But because diversification of the

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

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

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

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

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

MR. HUGGINS: Yeah.

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

MR. HUGGINS: Little counterintuitive.

MR. DIFUSCO: Why on a performance-based

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

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

Now the one year has a high water mark. We are not just trying to beat it every year. If we go down a lot in one year, the next year doesn't matter, just trying to beat it over a one-year period. We need to crawl out of that over performance for the prior year. Effectively, is the same type of structure as a three-year period. We would be happy to do that as well if that is of interest.

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

Just one point on the fee. I think from a -- I know one of the things you've also been thinking about is active and passive. If you can find a manager willing to partner with you on a structure that will give you a very modest base fee, something very comparable to passive with some potential upside if they deliver active returns is probably the right way to be thinking about it.

MR. DIFUSCO: Okay. Thank you.

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

(No questions.)

MR. DESAUTELS: I will jump in.

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

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

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

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

One, it's a really better reflection of whether these companies are earning good returns or not versus EPS or Epic Dot or things like that.

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

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

On the wireless side, if we roll back four, five years ago, this used to be a great market for two companies for AT&T and Verizon. They were really a duopoly, controlled the sector. You might remember, it was very hard to switch back in the day. If you had Verizon, if you were a Verizon customer, you had CDMA phone that didn't work on AT&T's network and vice versa. AT&T and Verizon. And so if you were Verizon customer and wanted to switch, basically you can only go to Sprint which was a very inferior network in terms of quality and coverage, especially in the suburbs. And the same thing on the AT&T side. You had wanted to switch to keep your phone, you have to go to T-mobile. They didn't have good coverage in the suburbs and so forth. Also, you had -- they didn't have the iPhone. If ou wanted the iPhone, AT&T was the only place you can go and so forth.

It use to be the business that was a duopoly that looked great for those two companies, was tough for consumers. But as certain things evolved, namely around technology and iPhones and competition, we felt it was going to get a lot tougher for the top two companies and continue to get tough. And that's -- so we have gone from that period, what it looked like five years ago, to today where you can basically get unlimited from any carrier. You can bring your own phone anywhere you want. Most carriers will reimburse you if it's going to cost you 4 or 500 dollars to move over from AT&T to Verizon and vice versa.

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

On the flipside --

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

MR. DESAUTELS: Yes. Correct. The

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

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

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

And it gives them a certain amount of pricing power, so the scale players in the home broadband market really are the ones that can generate a lot of free cash flow, reinvest that free cash flow to sustain their dominance and also give money back to shareholders either in the form of dividends or buy backs. We have large positions in both Comcast and Charter in that respect. Again, very much driven by a good market structure and scale flare that can sustain their confidence in that structure.

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

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

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

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

Now in this case we got lucky in that a deal did happen and Washington approved the deal and so forth. But you know, that was an example where I think, you know, if you have that industry knowledge and you know the companies over a long period of time, you can act fairly fast to take advantage of opportunities that might come. So -- and where valuation gave us better odds. And in this case, gave us a good outcome.

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

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

But any questions?

MR. DIFUSCO: None for me.

MS. JOHNSON: None for me.

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

MR. HUGGINS: It would have been probably -- it depends on the time period. But it would probably be between 30 and 40 basis points depending upon the period.

MR. AMMATURO: Thank you.

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

MR. AMMATURO: Thank you.

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

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

MR. DIFUSCO: Thank you.

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(Brief break taken.)

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MR. GOLDSMITH: Should we talk about it?

MR. DIFUSCO: Sure.

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

You know, in terms of performance, the two strategies were, I would say, largely quantitative-model driven, rooted in fundamental analysis. There was some technical. That's momentum and investor sentiment. But largely fundamental, analyzing the operating metrics of these companies.

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

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

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

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

Wellington, obviously, if there is a group of partners gets unhappy with the firm, there goes all of Wellington, you know. So, our recommendation I think is to push for PineBridge. I think at a -- we talk sort of an enhanced index. They don't present it that way. But it's interesting to note that within our research group, we have noticed a lot more strategies like that becoming more attractive. And I think it's just the nature of the large cap space.

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

One minor point but one last thing, I will differentiate. Pinebridge made a point to note that they look at all sectors relative to each other; whereas, the other two funds noted that they look at sectors within each other exclusively. And I think that, you know, it is -- I understand that you can't compare, you know, growth metrics of, you know, very different industry to another. But from an attractiveness standpoint, I think what PineBridge would seem to be doing is roll everything up into a general attractiveness and not let -- oh, that's a financials company that operates very differently from an IT company cloud their view of whether something should go in the portfolio or not.

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

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

MR. DIFUSCO: At least.

MS. JOHNSON: At minimum.

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

MR. GOLDSMITH: That compounds itself, too.

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

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

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

MR. DIFUSCO: That is what they are asking.

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

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

MR. RUBIN: That's all right.

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

MR. RUBIN: So then, if it comes down to do we believe that they can manage the money at 17 or 18 -- or 18, I guess, is what they are proposing in a way that they are going to beat the benchmark and give us a value? Or do we think that is really not just an accurate portrayal of what they are going to do? They are way out of bounds.

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

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

MR. DIFUSCO: Correct. So I think keeping a reasonable allocation, a smaller but a reasonable allocation of active even in large cap is acceptable, as you know from the union fund, we do that. We have trimmed overwhelming number of large cap managers, but we still have one or two that we believe can provide some alpha. So, we do something more akin to what Marc was suggesting, an 80/20 split or a 75/25 split. And on an 18 basis point fee given their track record and their process, yes, I think it's reasonable to believe that they can generate alpha over market cycles over longer periods of time.

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

MR. DIFUSCO: You should ask all the questions.

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

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

MR. DIFUSCO: I agree with that.

MR. GOLDSMITH: How does that scale down? That's why I was asking -- they are not included in your fund only. What happens when you scale that into the -- I thought they were doing that as an example of this is -- we have the best analyst. And I thought it was interesting. It didn't mean a whole lot to me.

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

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

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

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

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

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

MS. JOHNSON: Right.

MR. GOLDSMITH: Forget the metrics if he noted free cash flow or someone else noted the beverage analyst talk about branding and things. I understand that that -- those dynamics, I don't know -- frankly, branding could be important in telecomm. I don't know enough.

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

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

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

MR. GOLDSMITH: Yeah.

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

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

MR. DIFUSCO: Still 18.

MR. RUBIN: All of that is included?

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

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

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

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

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

MR. RUBIN: You're chairing the meeting.

MS. JOHNSON: That's right.

(Laughter)

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

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

MS. JOHNSON: I second it.

All in favor.

(Ayes.)

MR. DIFUSCO: Thank you.

MR. RUBIN: Anything else you need from us?

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

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

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

MR. DIFUSCO: No.

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

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

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

This RhumbLine was approved, I believe almost about a year ago, I want to say I think. At the time, there was no passive exposure in international equities. I believe there is still no passive exposure. The international indices were passive funds are a little more expensive than domestic passive funds, but not a lot. Still well below where their active counterparts fall. I think it was covered in sort of our on-boarding of you all as a client.

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

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

It was one rationale would eliminates the risk that our actives underperformed. And I think the active managers have done well over the last several quarters relatively. But over long periods of time, you can think of developed international similar to large cap in that these are the largest, biggest you know companies in Germany, France, UK, you know, Japan where there's been a lot of coverage for a long time. It's a space where indexing, to some extent, can make sense.

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

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

MR. GOLDSMITH: Yeah. You can see --

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

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

There are some other issues, as well. Geopolitical. And I think following the election of Donald Trump who, at face value, I think some of his policies would go better for developed economies relative to emerging. I think we would tend to agree, that being said, emerging markets remained undervalued owing to the last four years or so. They have done very well to start this year. We actually recommended to Chris, I believe you made the action, to trim emerging markets to fund the month of -- this month's benefit payments.

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

MR. RUBIN: Take chips off the table.

MR. AMMATURO: Yeah. I mean --

MR. GOLDSMITH: Yes. Yes.

MR. AMMATURO: The extent of your overweight isn't warranted, in our opinion, at this time. An overweight position is warranted. But the extent of your overweight is fairly out there in terms of relative to benchmark, which is what Alex just verbalized. If you aggregate all your international equity managers, again, your overweights are emerging was significantly above the target or the benchmark. This move will bring you -- still be overweight in the emerging markets, but just not to the same extent.

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

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

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

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

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

MS. JOHNSON: Okay.

MR. GOLDSMITH: Has the added benefit

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

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

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

MS. JOHNSON: Second.

All in favor?

(Ayes.)

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

MS. JOHNSON: Okay.

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

MR. DIFUSCO: No. We have a memo and

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

MR. RUBIN: To table that?

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

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

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

MR. AMMATURO: That's accurate.

Meeting adjourned.

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

MR. GOLDSMITH: On net basis.

MR. RUBIN: Say that again?

MR. DIFUSCO: About 50 basis points of the outperformance, 4.91 to 4.43. All the managers or all the asset classes as a whole have outperformed their benchmark with the exception of fixed income, which is only 3 basis points behind the target. They are essentially even. You know, large caps, small cap and equity all significant, net of fee outperformance first quarter.

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

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

MR. DIFUSCO: Correct.

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

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

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

MR. DIFUSCO: Correct.

MR. RUBIN: And then move from there?

MR. DIFUSCO: Yes.

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

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

MR. DIFUSCO: That's it.

MR. RUBIN: Have they been notified?

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

MR. RUBIN: They weren't invited.

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

MS. JOHNSON: They --

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

MS. JOHNSON: Okay.

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

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

MS. JOHNSON: Motion to adjourn?

MR. RUBIN: Motion to adjourn.

(Meeting adjourned at 12:28 p.m.)

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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