CITY OF PHILADELPHIA

SINKING FINDS COMMISSION

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WEDNESDAY, JANUARY 15TH, 2020

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This Meeting of the Sinking funds Comission, held pursuant to notice in the above mentioned cause, before Jacqueline Berger, Court Reporter - Notary Public there being present, held ay 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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STREHLOW & ASSOCIATES
FULL SERVICE COURT REPORTING AGENCY
54 FRIENDS LANE, SUIT 116
NEWTOWN,PENNSYLVANIA 18940
(215)504-4622

COMISSION MEMBERS:

Donn Scott, Chairman
Christian Dunbar , Treasurer
Kellen White, Controller's Office

ALSO PRESENT:

Christopher R. Difusco, CIO PGW
Alex Goldsmith, PFM Assest Management
Marc Ammaturo, PFM Assest Management
Bob Galdi
Mike Mcdonough
City Solicitor Representatives
PGW Representative

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CHAIRMAN SCOTT: The first order of business is approval of minutes. Is there a motion?

MR. WHITE: Motion approved.

CHAIRMAN SCOTT: All of those in favor?

(Ayes.)

CHAIRMAN SCOTT: I'm now going to turn it over to Christopher to talk about his private introduction discussion.

MR. DIFUSCO: So just real quickly before Alex starts, you remember at the last couple meetings when we talking about private debt allocation over time and alternative -- so what PFM is going to present is introduction as asset class. You'll note that on the memo just to reiterate for the record neither one of the funds that are in this presentation are being explicitly recommended, being used as example of the types of funds that we might bring to the table at a later date.

Once PFM has had a chance to approve them. But I think they're good illustrations of the types of funds that could be brought in at a later date. We're not now recommended or asking that we vote on either of them or consider either of them today. With that I'll let Alex jump into the education.

MR. GOLDSMITH: Thanks Chris. So the memo is basically plainly written there. These are purely for illustrative purposes. We'll turn to this private debt overview. Chris gave you background. We went through a rewrite of the investment policy statement to include a target alternative and allowable range with the goal of adding diversification to the funds. Right now the fund is purely invested in liquid stocks and liquid bonds.

The alternative asset class of private debt, private equity, real estate, infrastructure, farm land, energy, real assets and things like that that could add on diversification potential to a portfolio of this size. At the same time they have the potential to enhance returns and lower volatility of a portfolio because they don't trade on a daily market. I mentioned a number of sub asset classes.

It was always our intent to the lead with private debt. Essentially what private debt is these are loans not originated by banks, not public bonds that you can go out and buy, but loans originated by private firms that tare designed to fill a gap in the lending markets.

That really goes back to sort of 2007 and 2008 financial crisis when a lot of bank credit dried up. Historical users of debt, firms making acquisitions, firms looking to invest in their capital equipment of services and private equity firms looking to buy companies. They needed to find additional sources of debt. So that's where the private debt market really came into it's own.

If you want to flip ahead to page 4. It says Private Debt Overview. That top section, I went through a lot of these points. The advantages here -- because these are liquid loans you typically have to, as an investor have tie your money up for several years. Typically when that's the case you need to get compensated a little more for it. So theses are typically higher yield returns. Again, because of the private nature these are companies that might not be able to fully -- they're smaller, they might not be able to access the syndicated loan market, the bank loan market. That also leads to higher coupons and yields. At the same time they are fully debt investments.

MR. GALDI: How much of a premium would this be over say, junk bond?

MR. GOLDSMITH: You know, that's tough to tell. You said junk bond, you have a high yield portfolio. I think for 2019 a high yield fund turnaround was 14 percent or so. Now, if you were investing in a secured private fund you might be looking at a target of 10 percent or so. So maybe not as high as the high yield. This has been a very good year for high yields. There have been very bad years for high yields as because those have been bonds that have been trading on the open market.

I don't have the exact date in front of me of calender years when high yields generated negative return. For the most part, when you're buying these and holding these loans they should generate you a positive return over the life of that loan.

MR. GALDI: Sure. Because I would assume the risk is much greater. So people that can't get into -- it would be too risky for our small portfolios.

MR. MCDONOUGH: If I could just jump in for a second. So private debt doesn't imply credit quality until you have different ranges of credit quality of private debt so you could have a high rated company and private debt as well.

MR. GOLDSMITH: Right. So that's on page 5 here. This is the capital structure. This is private debt. Everything at the top all the way down to subordinated debt, those are debt structures and then at the bottom you have equity. Obviously all debt is safer net rate. And bankruptcy is the last to get paid out and often times gets erased. The first-lien debt is what get recovered first.

Now, obviously we're not investigating this asset class seeking to get paid out first. The other component of this is that return typically goes up as you move down this page. I think goes to the point Chris was making, by using private debt you're ale to invest senior secured first-lien debt of high quality investment grade companies and generate returns of -- it's not guaranteed but 8 to 10 percent from those investments, whereas as comparable credit quality, we're talking senior secured or high quality names in the public debt market.

You could be looking at a low return and again, much more volatility. Those are bonds that are being traded on a day to day basis. They are being repriced every single day. For the most part these private debt managers, and typically the one we favor, they're buying a loan or they're issuing a loan, they're holding it until it matures and they are getting all those contractual coupons. They're not selling it or repricing it or anything else. So in that regard it's a much smoother return structure as opposed to being in the public markets.

I think we're sitting here right now at the end of a very good year for bonds. I think even the core bond market is up about 8 percent over the last year, your basic treasure bonds. That's not only the case this year certainly as we expect yields falling back down not quite record lows but hey are very very low and we're expecting rates to rise any time soon.

When rates do rise that could impact the price of the existing bonds if theres an inverse relationship when interest rates start to go up existing bonds with low yields, their price rose if your holding these cash flow stream that won't necessarily happen to you in private markets. That's one of the main reasons why. We're not talking move the whole portfolio obviously into private dept but moving from away from your traditional fixed income into private debt. In this instance we would expect enhanced returns and maintain volatility.

Again, mostly what we're looking at is this first-lien debt, second this secured debt. It should have a higher return.

Mezzanine debt might equate typically to your high yield type. So typically if you were looking at the high yield liquid market you would maybe prepare that to the Mezzanine or that subordinated private market.

Now, those types of funds you would expect to generate 14 to 15 plus return. So I would call it lower rated private debt returns more than high rated private debt much like lower rated listed debt should return higher than high rated listed dept.

This gets into the return of the universe of private debt on page 6. So you have these three lines and it's quartiles of the universe. So the line in the middle, that's the median. There's roughly 200 to 400 funds in the universe at any given time. That 50th percentile fund, that's the median line. It's by vintage year. That's the vintage across the bottom. These finds are raised for specific periods of time. You give the fund your capital. They have five to six years to invest it, harvest the returns ans return it all back to you.

You compare funds from similar years to those years. Because again, funds that we're investing in into 2006 and 2007 at the peek of the market, if you look there were returns all are typically much lower than funds that we're investing in 2009. The bottom of the equity markets, it was a risky time to deploy capital. But the funds that made the risk in that period were awarded with higher returns.

I think the key take away here is the bottom quartile. So that's the bottom 25th percent of funds in the universe. The 25th percent marker is even in the worst years. You can see as far low as 2006 was the worst year to raise a fund in the private debt market. Even the worse quartile of funds, their returns since 2006 is right around 5 percent, not negative. It's a key take away. I don't have a comparison to other assets but the key here is preservation of principle in one of the last 30 years.

At the same time you compare this to the median. You're right around percent which is again within in a very very good year for bonds and the bond market didn't hit 10 percent this year. Obviously, we would be looking we'd be looking through our process with Chris to find those funds that are in the top quartile.

Page 7, this sort of goes into the data of right now who is out there raising capital to issue private loans. You can see the stats going down the left-hand side. There are a number of large funds, 16 percent of the universe is the top 10 funds. The bulk of where investors are going isn't to senior secured direct lending market. To a lesser extent, distressed and Mezzanine and then to the far right, and I think this is important to know later on in the presentation, you'll see in the upper right bar chart ventured that.

It's a very very small component. Typically venture capital companies finance themselves through equity. Venture companies go out and but their equity up for a round a equity financing that allows them to go hire some top notch programs. Increasingly and I think this is because of the fact that we're are in a long cycle of venture right now.

Venture has been quite strong. Companies are looking to fiance their growth through debt and not dilute their ownership.

The process here is, again, we only have two example funds. These funds have been approved by PFM's discretionary investment committee. So we are actively putting them into our discretionary clients that qualify and then that have the appetite for liquid investments. That's why I wanted to bring them today because they certainly have metal of our discretionary committee.

But the process here is between our research team, 10 individuals back in our office a few blocks over, Chris and his team, we will scour this universe, come up with a list of 6 to 10 attractive names each, get together and go through those names, decide what sort of characteristic we would like to see in a fund.

Do we want to see higher returning riskier Mezzanine funds or do we want to see more steady performing loans that are getting you that out performing treasures with pretty good certainty. We'll review fees, we review all the obvious personnel who's making the loans.

At some point we will bring a manager to the table for approval of the committee and then possible another and then another again. We do this as part of a portfolio as well. Taking a little bit of different flavors to reach the goals we're trying to reach.

MR. WHITE: So this debt would have -- would it have some type of rate such that one could evaluate the risk associated with?

MR. GOLDSMITH: So that's often a component of what the funds do. And the fund teams go out and they decide are we going to -- a company comes and says, we're seeking 50 million and this will finance the acquisition of two of our competitors. That company is often private and doesn't have a rate.

Based on Golub Capital Partners is doing, what they are really bringing to the table is their going in a performing that credit analysis and they're coming up with their own rate and it really is their own because they're not a agency. But in our review of their organizations that's what we're really evaluating on their ability. Their ability to effectively underwrite these situations and come up with terms that A, if the deal is viable, right? And then B, what terms make it part of the Golub portfolio to help them get to their goals.

Personnel is always important whether you're looking at a mutual fund or a separate account like we do for the other traditional RFPs and things. It's just as important here. In moving into Golub unless there are any other questions on the universe.

MR. DIFUSCO: The other component and we have a really extremely small slice in a larger fund, the City Duty Fund. The other component is whether or not you choose to fund in employees leverage, right. So basically that would essentially juice the returns, right? And so one of the things what we seen and they've helped us negotiate the contracts we've done two of these funds with the company. We've chosen to go the un levered route. So just given where we are, the credit cycle, the fees tend to be a little bit lower if you tend to be a un levered fund.

Obviously the return may be lower but as you point out we're taken less risk. So that's the appetite that staff as had, which I'm obviously of the large fund, is to do in levered funds and still get good returns but we're dropping down the risks.

MR. GALDI: What is the fees as --

MR. DIFUSCO: It depends. Each fund it different. Some of them have a traditional and you'll see 2 and 20 are very high.

MR. GALDI: 2 and 20?

MR. DIFUSCO: In some cases. I don't tend to have an appetite for that. And correct me if I'm wrong but the fund that we recently did for the large one is like 8.5 and like 8.10. It was much lower. There's also hurdle. They're not getting paid -- they're getting paid the .5.

They're not being paid the 10 percent unless they meet a minimum return rate.

So we'll call it a hurdle rate. They're not going to get 10 percent profits unless they give us at least 6 percent of whatever the rate is.

MR. GALDI: Is there a claw back when they miss their target?

MR. DIFUSCO: Not on the management fee but there would be claw back if the returns later drop. Yes, there are claw backs.

MR. GALDI: Mathematically you can either charge through the years.

MR. DIFUSCO: Adam can verify that but it's always apart of any contract that we have claw backs.

Left guys: This is last decades structure model. Everybody is cutting their cost. Most retails broker are doing -- it's ridiculous.

MR. DIFUSCO: You and I, we're in a agreement and we have been for both funds. We're not disagree with that statement at all.

MR. GOLDSMITH: Thanks Chris. In one thing I'll say, generally I think we prefer un levered funds, that's a broad statement, except for in situations where there's a compelling case where there's structural elements that get us comfortable with the enhanced leverage.

Golub is one of the few ones, especially in private debt, you're going out and lending already why would you leverage to leverage. So I think that's kind of silly broadly.

Golub is fairly unique compared to the rest of the universe here. So I agree their fee -- they're about 1 and 20. So it's over 8 percent. So you're paying about 1 percent and then 20 percent on all returns over 8 percent. It's not .5 and 10. So if you through here on page 9.

Golub has been around since 1994 and they have a goof amount in private debt mostly in this one strategy. And the team you can see here, this is the investment committee and these have been to together making these same loans for along time. On page 10, this is where they get a little unique.

Most funds, let's say, Gold Smith Credit Partners, I'm going to go out and raise 100 million to make loans over the next three or four years. I go get that investor capital. I have to start making those loans then.

Golub has an evergreen portfolio of loans that they've been making and it's being held in this limited holding company structure. What each of their number funds do you invest in fund 12, fund 12 when it closes, when it gets all the investor capital, it goes and it buys a share of Golub Evergreen Holding Company.

So at day one of your investment in Golub fund 12 which closes in 2020 your suddenly holding loans that may go back four, five or six years and they are paying existing coupon that performing and when we perform the due diligence of Golub we're able to see -- right now they hold about 400 or so existing loans.

We know what the coupon on that portfolio is. We know what the weighted term is. It gives us a lot more clarity. It also provides instante diversification. So again, let's say your credit partners I'm closing this summer, that means all of my loans will have been originated in 2020, 2021 and 2022. With going into Golub you're getting right away loans that were originated in potentially 2013, 2014, 2015 as well as loans that originated in 2020, 2021 and 2022.

So I talked a little bit about the chart that showed the performance, the line chart with vintage years, when you make investment there are vintage diversification. You could be investing at the top of the market and that's why when it comes to alternative in private equity and private credit you want to do as much as you can to diversify year risk.

So this unique structure like I said is inique. There's not a lot of groups that do this. You can step right into that diversification. From what their buying -- diversification is also the heart of how they build their portfolio. These are US loans, some Canada, a very small amount. But diversified by reach and diversified by sector.

Structure, they're all for the

most part senior secured. They're are looking for middle market companies below 100 million in annual earnings typically around 50 millions in earnings. So these are below a billion dollar companies and they're putting two times debt. So they're not over levering these companies. If a companies got 50 million dollars the most they're going to put on it is 100 million dollar low. That's two terms.

Again, you can see down the investment side, because the holding company owns more than 400 investments your fund investment is going to be quiet diversified. 0.2 percent is the average. The largest position in any fund is 1.4 percent. The top 10 are about one sixth of the portfolio there and so this is highly diversified portfolio. It is levered and that's on page 11 here. This sort of the characteristic. It's in the box to the left. Their targeting 2 billion dollars.

So for fund 12 Golub wants to raise 1 billion dollars like PFM's investors. Through 2 to 2.5 turns a leverage. You can see the gross AUM is around 5 billion and that's what Chris was talking about. You can take investor commitments, add leverage, essentially double the purchasing power and that could enhance returns and it can enhance risk.

Golub was an example of a fund that we are comfortable of adding leverage to because of the high quality performing of their loans. The significant diversification of their loan portfolio, the diversification of the vintage year a cross the wide variety as well as the visibility that we have.

We know how these 400 or so loans are performing. That's why we can say they're targeting a 10 to 13 percent net IRR. That's a pretty narrow range. They're not trying to sell these loans. They may and I think they have sold loans. It's been very very rare and very very few. They're looking to buy these and hold them until they are done.

Again, the rest of this we talked about before. You can see the concentrations of the investments in the pie chart on page 12. Industry, it's quite diversified. In fact the highest sector is diversified services, industrial services.

Page 13, you can see their historical fund returns. These are net. Down the left on the funds you have their fund going from fund 4 up to fund 12. The international and domestic, those are for onshore and offshore investors. If you move all the way down to the right hand you can see the inception to date. So the funds that were raised in 2006, 2008, the earlier funds, they have out performed the most recent funds that come in. You can see more in the 8 to 9 percent range. You know, part of that is Golub has -- this has been as they build up this portfolio.

So now they have vast vast vast array of flow. Secondly, as the asset class has matured from 2007 until now in a number competitors in the space, you know, Golub was an early mover. They had a lot of capital. That has brought returns down somewhat.

Ultimately in private debt the key is competition for deals. You have to make sure that often times there's a number groups that want to loan to these companies. Why are they going to pick Golub over someone else. So that's why Golub has to find -- they have 100 person team of investment professionals.

Their team is 400 people, 100 out of the 400 is purely investment professionals seeking deals and doing the credit analysis that we talked about so that they could close fast. If they think this is a good deal they can get the money out fast. And Golub basically had built a 400 person team. 100 of those are investment professionals that have been doing this for quite a long time. It's something we like the idea of what this is. There's some other groups out there but this is something we found.

On page 14, this goes into the terms. We talked about a lot of this. You can see here the management fee. It's going to be approximately 1 percent. It's based on that calculation there. So that 1.25 on middle market assets and then .5 on broadly syndicated loans. That will average out to value of 90 basis points to 11 basis points. There is preferred returns of 8 percent. So anything over 8 percent that's where the 20 percent return fee comes on.

You know again, it depends on where you are in the universe. I think Golub is -- they're pretty leverage on as Chris will allude to, that does typically mean that fees may be a little higher for funds that are generating 4 to 8 percent senior secured. You might see a lower fee structure.

Again, this is purely for what you might see. We're not bringing this as a recommendation today. Questions on Golub high level? If not we can move on to page 16. So this is the next fund, venture debt. You might say, venture capital, well, that seems pretty risky. Why would I want to loan to those companies? The data actually has shown that venture debt is the least risky highest returning private debt sub clients. It's the smallest. It is the newest.

So I don't want to all exactly the wild west but there are risks associated with that nature of these loans. I talked about why venture debt has started coming to be the last several years. You can see here on page 16 this chart is not ground breaking by any means but it basically says, well, if you use two sources of financing you can have a higher enterprise value if you're adding debt and equity.

Also, it would be better to say, investors don't want to dilute their ownerships of their companies that they're starting up. Page 17 this is where I talk about -- this is 2005 to 2015 funds, so funds launched between those year, as of the end 2018, the most recent year we have this date. Return a cross the bottom, risk a cross the Y access. You can see that tiny little dot, the smallest universe venture debt, you know, theres a higher return at the lower risk. Why is that?

Often times I think, again, it's small, not a lot of money is being deployed in venture debt. Those lenders can be extremely picky with the venture firms that they lend to. They pick the best of the best and often times these are highly performing venture companies that do not want by any means to default on a loan. They essentially needs this money for a quick 24 to 36 month expansion. They don't want to dilute their ownership because they believe in the success of their company and they don't want to default because they need the credit respect going forward.

It's lead to I think diligence around the issuing and the repayment of these loans. On page 18, ATEL, they're from San Francisco. That alone is why the aids have been there. This grew out of -- they're been financing corporate expansion since the 70s primarily in equipment finance. Whether they're funding leases or physical leasing the hard capital goods. That was very popular out in the west cost in the 70s, 80s and 90s.

As companies have moved away from financing physical equipment and instead in these you're financing intellectual equipment and that's the hiring of these hotshot programers from around the world. It's in there DNA to finance the growth of these companies.

MR. GALDI: During a recession wouldn't venture debt be the first type of debt to default, isn't that the most risky debt. Didn't that happen in 2000, companies were bankrupt more or less. I just think we're going down the wrong road. I'm sorry.

MR. GOLDSMITH: So there's a couple things. If you're not going to invest in the debt markets then you're looking to invest in the equity markets and I think that's what you're alluding to. The equity markets, the evaluations are fair to go high and we've had a tremendous run this year. We're look at these investments as alternatives to what's been a very aggressive equity market over the last 11 years now. So that's the only thing. We're looking at these -- you can't be --

MR. GALDI: But these are less likely. You can always do a low rated with three basis. So why would we want to do --

MR. GOLDSMITH: The only problem there is --

MR. GALDI: With the same type a return and would be a little less risky -- national partnerships.

MR. GOLDSMITH: So we're talking a

lot here.

MR. GALDI: National partnerships exclusively invest in oil and gas sectors which is one of the highest sectors out there. You saw it run up earlier this year and now just this week there's expectations that oil prices could be eroding pretty solidly. Inventory has been build up over the last week. Those are liquid and those trade every single day.

MR. GALDI: We also have commercial mortgage. You can do a fund that would -- that's not diversified. It trades more like a bond between 10 to 15 percent a year. So it's very similar to a bond and how its raised and you have an 8 to 10 percent yield.

MR. GOLDSMITH: I suppose so, but like I said, if interest rates suddenly -- if things are looking a lot better this summer and if that starts a steady pace of 25 percent rate hikes every quarter, those listed -- event eh ETF, you could see some decreased in the value. Again, venture sounds risky and I suppose to operations of the company inheritably are -- if you go on to page 19, these are 100 percent first-lien loans.

The venture industry is not the same as it was in the year 2000. If you think about Pets.com a lot of that kind of stuff. Even it's not the same as where it was 10 years in 2010. There is a lot more of a focus on hardware these days, not a software service based company. That's still a big component of what venture is but we've seen more hard science, physical investments coming out of the.

So I'm not handicapping the fact that the venture industry dries up, although, we think that is unlikely, the fact that we like ATEL. Even if that were the case, ATEL is investing 100 percent first-lien loans, senior often secured and so they are getting paid out if anything, if there is a bankruptcy, ATEL is getting paid out, not the equity holders, not the venture capital companies that bought the equity, you know, the A or the B round.

So it certainly is a good point and we're not talking about making equal allocations or even recommending or even hypothetically if this ATEL would be much a smaller allocation than something like Golub.

You can see that being said -- there's equity components to this which I think you would want in making venture capital. It's a very small amount. The return here comes from their debt, but you're taking 4 to 6 percent of equity on these deal, that's where the significant upside can't come from. On page 20 and 21 at the top here on page 20, target NAV and target gross AUM, both 200 million.

So this fund is not levered unlike Golub and that's what we would expect from a fund like this. It is a little riskier. So not adding leverage. It's much more concentrated, 30 to 40 loans instead of 400 plus. On page 21 you can see this is their existing Fund 1. You can see the names on the left. These are the sectors on the right. The largest is biotech.

There is consumer products and services but then the bulk of this is over 75 percent and devices, semiconductors and equipment. On page 22 this gets into all the venture capital deals that ATEL had done from the year 2000 through March of 2019. These are outside of a fund structure and they are gross. So again, this is -- it will applying the fee structure to this.

You can see if you move out to the far right-hand side, there's two columns, gross IRR without warrant, that's with no equity, and gross IRR with equity. Very very strong returns, again, even in 2007, one of the worst years we have experienced in the past 30, these loans generated a positive return. On page 23 this is sort of what they would expect if they plug these returns into a fund structure.

So Fund 2 is seeking 12 to 14 percent a little bit higher then what Golub was seeking. If you took those returns from page 22 and you've put them into a fund structure as you would expect Fund 2 to aligned, they are generated about 10.8 percent net IRR. That's from 2000 through 2019.

So there's really multiple

market cycle and multiple venture capital cycles. Their existing Fund, it's 2016 vintage. It was launched in 2016. It has generated a 10.2 percent net IRR. Our return expectation is that this fund will probably come in around a 10 to 12 percent range. Venture capital, these loans are last of the industry here. These are fast loans. The companies want to repay them quickly in like 24 to 36 months. A lot of it you can see here is 40 percent has been returned in the first 12 months.

What that gives the ATEL the opportunity to do is ATEL gets some money back and then they can redeploy that which can enhance their return. So again, time, value, money to speed -- speed is always good when it comes to these type of investments. These are faster loans. Then you can see the dispersion of their returns on page 25. The bulk of these returns are in the 12 to 16, 16 to 20 range. They're not shooting their lights out. They're not having a vast number of underperforming loans. This is fairly normal distribution.

On page 26, a little more

aggressive fee schedule. 1 percent on undrawn capital. So again, Golub, you're going to have a lot of your money called into investments on day one. ATEL will take a little bit longer to invest that capital. So they're not charging you as much on uninvested capital. It is invested in management fee 2 percent. The preferred return is 8 percent and then the performance fee on that is 20.

That being said, you'll notice here there's a line. This is important to note, catch up. Golub has a catch up. So that means once you get to your 8 percent return everything goes to the general partner until they have reached their preferred return. With ATEL once you pass that 8 percent it's just an 8 20 split between you, the investor and the fund. So they won't catch up to their 20 percent and then everything is done 8 20. That's sort of how Golub was done. This is a little more investor friendly just a heads up.

On page 28 I call this Sample Allocation. Again, this a purely hypothetical, but, we talked about how these fund differ both in terms of type of companies and the returns. Golub, we would view that as much more of a core allocation, a little more of a higher commitment and possibly about 1.8 percent. ATEL, again, we're looking at about 8.7 percent. The soft target to private debt, again, if you're targeting about 7 percent of the portfolio alternatives, about 3.5 or so, that should be in private debt.

Again, you're getting these constant coupons. It's relatively low volatility. It's quicker, higher velocity than private equity and private real estate. I want to start there, but we're not fully loading up the 3.5 percent. We expect there to be other funs coming down the road regularly. We would be making regular commitments on an annual or semiannual basis to these alternative funds to continue to diversify between managers and vintage year. So that's how it looks like.

Hopefully that core satellite approach makes sense when you contrast these two types of funds. Even if were -- Chris and I will come back together regardless and we look at what we might bring to the table, if it's not these two funds it might have similar structures of various secured safe fund with a higher allocation being bolstered by one or two funds, maybe a Mezzanine, maybe a special situations or distressed fund. We're not opposed to that.

They can offer a pretty good risk return profile but we would be instituting that type of investment to compliment something that's much more steady. So there's a lot to take in there. Any questions at all? That's just sort of what you might see at some point down the road.

MR. WHITE: So what's the time line for a recommendation?

MR. GOLDSMITH: You know that's something me and Chris have to discuss. You know, we've got short lists that we can bring to the table very soon. We would probably want to conduct diligence and tandem which depending on what we look at, if we're looking at maybe 10 funds, that's maybe a month to two months possibly. I'm calling it maybe another month in there of follow, again, because the goal here is to bring -- as opposed to bringing three managers in for a selection we'd be looking to bring in once recommended fund.

This is agreed to by PFM, by the staff and then we think at this time it's the best idea. So it's sort of a yay or nay thing. If it's nay then we go to number 2 on our list or 3. So in two to three possibly and I don't want to speak for you, Chris --

MR. DIFUSCO: I would say maybe. I would say it's more than likely just based to on the due diligence. I want to look at the full dynamics. So I would say May.

MR. WHITE: Okay.

CHAIRMAN SCOTT: Okay. Thank you. The next item on our adjenda is the investment performance.

MR. GOLDSMITH: Okay. The binders have the November performance. Unless there are any objections I'm going to fucus on the December performance which everyone has. It wash handed by either Chris or me. I just saw this today for the very first time about an hour ago or so.

The performance in December and November were pretty similar and so I think we can address a lot of the same themes. You can see December 31st end of the year market was planned 571,398 -- 437 million, excuse me. I butchered that -- up pretty significantly from where things were at the end of last year. If you an recall we ended 2018 with a very rough 4th quarter.

The markets were down anywhere between 10 to 20 percent. I don't have the exact dollar value, but re cooping that then some wow paying benefits out all throughout 2019. For the month it's a very strong of 2.3 or 3 percent net return out performing the bench mark which came in at 2.14 percent.

Largely on the overweight to equities, equity is still a pretty strong return for the month of December where bonds were generally flat. The full year you can see their 2019, their plan was up 21.5 versus 21.23, so 30 basis points net of our performance.

Again, largely on asset allocation, generally were stocks were this year and were bonds were. Moving out even further with a three year period, up 10.37 percent versus maintaining about 30 basis point spread. That's an annualized number. Moving through the managers passive motive in the large cap, you do have a 11 percent allocation to Pine Bridge.

Pine Bridge was -- I don't want to say struggling to some extent this year. You can look at their full year number 26.4 versus 31.4. Certainly not the type of return we would expect. We would expect them to move a little more closely. Certainly on weaker years out perform their bench mark due to their higher quality screens that they have in place.

In a year where their bench mark is up 31 percent where I think we're not going to sound the alarm if they miss by a little bit but we would expect them to be a little bit closer to the bench mark. A lot that came in the summer. They have improved performance in November. In October they actually out performed pretty nicely. They missed slightly here in December. NETA fees, you can see they're only behind a little bit for the last three months. They are on watch list. We have let them remain on a watch list and continued check with them on a monthly basis in person.

I'm not ready to sound the alarm. On the small cap side, again, Copeland, is one of the weaker active managers in this portfolio in this period. You see they missed for the month. For the quarter they're about 4 plus percent behind their bench mark, the Russell 2000. Since the inception back in August they only lag slightly behind their bench mark. So really this is November, December, they had some misses in the portfolio.

That's larger than the fact, again, similar to Pine Bridge, Copeland runs very very high quality portfolio. So in the small cap space where there's not historically a ton of dividend payer and not historically a lot of dividend growers. Copeland is looking for the those funds that are increasing their dividend very regularly. That's a good quality company.

This year, in a year that has

been I think called a bit of a junk rally in the small cap space, you know, less -- I have some other things to show as an example, Copeland like I said didn't keep up in the quarter when their bench mark was up 9 percent. I talked about a junk rally and small caps. If you look at year to the 2019 for example, small cap core, the SNP 600 is bench mark and is up 22.7 for the year where as the Russell 2000 is up 25.5.

The SNP 600 is a smaller bench mark, a higher quality bench mark than the Russell 2000. This year, what we would call a big recovery from the dept's of last year, the lower quality Russell 2000 out performed.

That being said, I will say for the full year of 2019, if you look at the blue bar for small cap, combined small cap go out to the 2019 box, as a whole you were up 28 almost 29 percent versus 25.5 for the year. On the internation equity front moving down, if you look at that and that blue bar as well, for 2019 international equity was up 22.34 percent versus 21.51 for the year on the backs of active management.

For the month and for the quarter the actives in the plan both delivering good out performance for the month, bench mark like performance for the quarter. They were also fairly recently added to the portfolio and have been outperforming since inception. No issues there.

MR. DIFUSCO: So we all just got this morning. The last line, in index returns for th international fund basically are right one where you base these points from the index. If go out to a longer term there's like a 60. gap and I wouldn't expect that with an index fund solely on a tracking error. I could see if there was something with Sandyhook but that's still seems --

MR. GOLDSMITH: And we're looking at this -- this is as of December 31st.

MR. DIFUSCO: Right.

MR. GOLDSMITH: This is an international index.

MR. DIFUSCO: Right.

MR. GOLDSMITH: I would have to ask, is it fair market value adjustments when they make international to account for when -- so you can't run up a market a head of time.

MR. DIFUSCO: No. I get it.

MR. GOLDSMITH: And it can be why. I'm not really the best explaining this. International equity funds some times holt trading of certain securities because they're opening an market where you have some inside information from another market that had previously closed the day before. And it short creates certain opportunities.

Like I said, it's fairly common if you look at international index mutual funds. You will this particularly around the end of the year, the end of the a month, the beginning of a year or the beginning of a month. Depending on what happened on like January 1st of 2019 or June 1st of 2017, that may be why the since inception number there so large.

If there was a large fair market adjustment the day of inception the inception will sort of go off a little bit. I will sort of try and get some calculation of the magnitude of why, but my understanding is that's essentially all of that.

The next one, fixed income, for the month it's well ahead up. 19 versus -- it was down 1.7. You have blending bench mark here which included high yield. High yield delivered very very strong returns for the month of December so the blended mark is a little higher. For the full year 2019 fixed income was up 9.24 versus 8.72. So again, active allocations, being in credit, you know, half way down the page, the Met Life Investment Grade Credit Fund, you can see there 2-19 return of 13.6 percent. So even though they lag their own bench mark that's well a head.

All the way at the bottom, Scott Harper, if you move out to their 2019 number, 14.08 percent. So again, they also trail your their own bench mark. They're a little more conservative than the universe of high yield but that's just fine because high yield turn out performs broad poor fixed income. The core managers out performing generally over the full year pretty stead adding in some corporate bonds. So the intermediate sectors, not the place to be.

Lozard(ph) also had a bit of an overweight to treasuries throughout the year. But again, a relatively smaller component intermediate then full spectrum fixed income. So all that being said, if you look at tis on a absolute nice basis, you know, pretty nice full year return, 2019, pretty good return in December.

You know, certainly over the last three years well a head of the 7.3 percent -- so making a lot up. Certainly there are years when that isn't the case when you're out performing the target. Good years like the last three year offset those other years.

CHAIRMAN SCOTT: Questions? Thank you. Chris, do you have something to add on the new business side.

MR. DIFUSCO: Just a couple things real quick. Just keep in mind to the market and the overall value. It doesn't include what we have. So we see the 571 at the top and we also have another 8.2 million in cash so the full value is closer to 580 or 579.5 FYI.

In terms of new business updates I'll be prepared and I'll apologize it's taking a little bit longer than I anticipated but the responses are complicated. Custody banking presentations will be ready to go in March. So we'll one or two firms presented in March. I'll also be putting the general consultant for the plan. I'll be getting that up hopefully at the end of January early February in terms of that search.

Data is starting to come in for the 4th quarter of 2019 local and diversity brokerage initiative when that's fully baked and compiled -- I probably have two thirds of the firms in but I don't have everyone yet I will send that out as I do on a quarterly basis. Lastly, this is part of the IPS addition, we we'll be publishing once or twice a year as part of one the flash reports, the fee data.

The initial draft of how that's going to look is about 95 percent finish. I just want to make sure we get it right. The format is friendly for the Commissioners as well as the public. So when I add something I will dispute that as a draft to everyone and then once it's look ready to go. Like I said, once or twice a year that will be part of the report that goes up publicly. Next meeting is set for about two months from now on March 18th at 10:00 a.m.

CHAIRMAN SCOTT: Thank you.

MR. WHITE: Are we still on the track assume a return in that?

MR. DIFUSCO: Yes. I know Rob is still looking at some things and I will follow-up with him about that in terms of a formal response.

MR. WHITE: Okay.

MR. DIFUSCO: Last time I talked to him about it he is looking at it.

MR. WHITE: Great. Thank you.

MR. DUMBAR: And I think this important to note -- PGW in April or May and it that's happening then we'll more than likely want to do something that would put -- they will make the finances look worse prior to that process.

MR. WHITE: Got it.

CHAIRMAN SCOTT: Any other comments before we adjourn? Is there a motion for adjourn?

MR. WHITE: Motion.

CHAIRMAN SCOTT: Motion accepted. Thank you.

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(Whereupon, the hearing concluded at or about 11:13 p.m.)

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

I, Jacqueline Berger, 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.

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Court Reporter - Notary Public

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