CITY OF PHILADELPHIA

SINKING FUND COMMISSION

IN RE: March Meeting - Special Session

- - - - -

Tuesday, March 3, 2020

- - - - -

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 4:09 p.m., pursuant to the State of Pennsylvania General Court Rules.

- - -

STREHLOW & ASSOCIATES
FULL SERVICE COURT REPORTING AGENCY
54 FRIENDS LANE, SUITE 116
NEWTOWN, PENNSYLVANIA 18940
(215) 504-4622
SERVING NJ, PA, NY & DE

A P P E A R A N C E S

COMMISSION MEMBERS:

Donn Scott, Chairman (Via phone)
Christian Dunbar, Treasurer
Rebecca Rhynhart, Controller
Kellan White, Controller's Office

ALSO PRESENT:

Christopher R. DiFusco, CIO, PGW
Alex Goldsmith, PFM Asset Management
Marc Ammaturo, PFM Asset Management
Surya Pisapati, PFM, CFA
Adam Coleman, City Solicitor Rep
Daniel Leonard, PGW Rep (via Phone)

\- - -

MR. DiFUSCO: I wanted to first thank everyone. I know it was very short notice. It's a lot going on. So, thank you for making time to meet quickly.

Just briefly by way of background, I communicate with PFM, particularly Alex, on a fairly routine basis about the markets. As of the middle of, I would say last week, early to middle last week, there was not significant changes being recommended across client portfolios, perhaps some trimming, which was then taken care of by the initial, you know, market drop.

Late Friday, right around the close of business, maybe right after the close of business, Alex and I spoke. And I was made aware that across PFM's discretionary, you know, OCIO clients, they were recommending or making a pretty significant tactical change where they were going to take 20 percent of their equity portfolios from their discretionary clients down and spread the assets through cash and fixed income. There was no change to that as of Monday morning.

So with that in mind, you know, and given the size of the recommendation being made, you know, it was not a couple percent or a few million dollars. You know, I thought it was appropriate to alert the Commissioners and allow them, you know, a Special Session to hear from PFM to ask questions and decide what action, if any, should be taken. And I have spoken, you know, offline to, I think, most if not all of you. Christian, may be the only one. I spoke to Rob a couple times.

With that, I will let PFM introduce themselves and then dive in if there is no questions at the outset.

MR. AMMATURO: Thanks, Chris. I think you both know -- you all know, including Donn on the phone, myself and Alex, Surya Pisapati is a manager on our research team and portfolio strategy team in the Philadelphia office. We thought it was prudent to bring her along. She's also an investment committee member. The thought is, we would go -- Surya would go over kind of the alert you have in front of you.

Actually, does Donn have that?

MR. DiFUSCO: I sent it out to everybody.

MR. AMMATURO: Okay. The document that we are in the process of sending to our clients, the thought is Surya will go over the rationale, kind of bring that document to life, if you will. And then Alex will spend a little bit of time discussing how do -- what does that mean for PGW.

Again to Chris' comments, this alert at a high level pertains to kind of what we are doing where we have discretion to move assets real time. It's a different relationship here where's it's consultative. We give recommendations, but the final decision remains with you.

So, Chris is correct. We did move.

We are in the process of moving 20 percent of our client's equity exposure across domestic international to be -- to fixed income and cash. That's ongoing right now with the traders we have in our Philadelphia office. We are in the process of writing an alert to our entire client base to follow up on the alert we submitted last week.

Last week, again to Chris' point, our stance was remain committed to your current allocation. But with the new information that has surfaced over the past week or so, we are taking -- we are taking significant action where we can. And where we don't have the authority, we are giving recommendations, as in the case of PGW.

So with that, I think it probably makes sense for maybe Surya to kind of bring life to this document in terms of our high level perception of what's going on in terms of how does -- is it infecting the markets.

One high level comment I will give

is that PFM, I think you know this, but we are long-term fundamental investors. When we see something like this, you know, we take a step back and say, is it impacting corporate earnings? Is it impacting GDP? And now it's evident it undoubtedly is.

When we sent that initial alert, there was some uncertainty if it was going to have a material impact on corporate earnings and GDP. But now, there is no hiding that. And it's out there for everyone to see. It undoubtedly is. Now, it's just the magnitude it's going to have. And when we see that, we get a little bit more cautious.

And that's kind of how I -- Surya will take it from there. That is just some high level thoughts.

MS. PISAPATI: Thanks, Marc.

So, we've been tracking the coronavirus since the beginning of this year which is when it was more and more in the news. When we were tracking it in initial parts of the year, during January and February, it was more of less -- a shock to the Chinese economy, less so global GDP but more so the Chinese economy. And we were tracking it from -- in terms of the number of new cases.

And what happened in China is that this was a more prevalent and more particular province. And then, they immediately quarantined it. Not immediately. It was a lag, which is why there has been widespread afterwards with that.

So, we've been tracking the quarantine and what has been going on in the Chinese economy as a result of the quarantine that has been put in place and the number of new cases. And hence, our initial recommendation is to do nothing in terms of keeping the old way as is at the beginning of last week when we reviewed the impact of coronavirus on US markets. At that point, there were a couple of cases in the US. But our view was that this was more or less contained given that the number of new cases rising in China was falling.

So to take a step back, for every disease that is contagious in nature, there is a reproductive rate that is associated with the disease which is called RO. And the base reproductive case, reproductive rate for this particular disease has been around 2.5. There are some people that have put it between 1.8 and 3.7.

What that means is that every infected person can infect two other people or three other people. And if you go back to your typical flu, that number is around 1.25. So, that kind of talks about the contagious nature of this particular disease. And this has only come out in the last two or three weeks when there has been more work put behind the cases that have occurred in China. And they were able to kind of glean more information from the pattern that they have seen.

And what has happened over the last week is that you've seen cases crop up in places where the person has not necessarily traveled to China or the person has not been in close contact with someone who has traveled to China. So up until that point, the market thought that this was something that would affect people that have very close relationship or have a close contact with someone who has a traveled to the affected area. And what happened in Washington State was that, you've seen this crop up in people that did not travel or did not have that direct impact or that contact with someone that has traveled to the affected area.

So, that led to the next question is, this is a contagious disease, but how is it spreading?

If you go back to SARS, it was just spreading through direct contact, person-to-person contact. And in this case, this has been symptomatic in nature. Which means that a person who does not show all the symptoms could still be contagious. And what they have done some more work on the people that were affected by the coronavirus in China, they found that 80 percent of the cases were mild in nature. Eighty percent of the people showed mild symptoms. The problem there is that you can have mild symptoms. You can just be coughing or have a mild cold. You can go out and you can still have the infection in you. And you could infect other people as a result.

So that -- that's why this -- that's why this has people concerned about how it has been traveling across people. And no longer it's just the close contact with someone who's been to that direct area. But it's that they could be in a community. They could walk through a school. And then the -- you know, somebody at the school could get infected.

And that was something that only came out in the last week. That the symptomatic nature of the virus came out in the last week. So, that is the reason why we have had a change in our view overall.

Because with that, you were seeing a rise in the number of cases. You were seeing a rise in number of cases in Italy and South Korea. Earlier, the cases were just contained to China, some in Japan. But as you saw more and more cases globally, the market's attention kind of turned to the virus and what impact does this have on overall global growth.

The other thing here has been the supply chain. The global supply chain has been so degraded, more so over the last 10, 15 years. So if you go back to SARS, which is a good -- which is a good comparison to what's going on. Back when SARS happened, China was only 4 percent of global GDP. Now China is close to, like, 20 percent and 17 percent of global GDP. And the global supply chain is more integrated.

As a result of that, when factory closures are happening in China, you are seeing a ripple effect through the global supply chain. What is happening in China, when people went home for the Lunar New

Year Holidays, they were quarantined. And then, people were slowly coming back to the factories over the last couple of weeks. But when they come back to the factory, they have to be quarantined again for two more weeks. So, the factory output is not back to normal.

The last number that I saw is that everything is running at 20 percent below the potential, even though workers are coming back to factories. And the Chinese government is offering stimulus in terms of tax breaks, in terms of -- in terms of stimulus being offered to smaller and midsize enterprises so they will not lay off workers.

So, that's happening. And we looked at that up until last week and said that this means that all of this will get resolved quickly enough because this is being contained. But the change of our view has been because of the way in which this virus can spread at this point and the rise in number of global cases. And that, again, kind of talks about how the virus has been spreading and how it's not contained.

What happens if the virus spreads globally is that you will see an increase in fear among consumers. And as a result, consumers not spending. You've already seen companies tell their employees that they do not have to do non-essential travel. And even tourists are now taking a step back in terms of traveling to, say, Italy or any other place. There is a general skepticism among the public in taking trips outside the country.

So, it would hurt consumption that way. Would hurt tourism. Too, it hurts consumption. We are talking about this, this morning that, you know, would you go out to Disneyland with your kids if Florida has a hundred cases? Would you take that chance? Would you go out and watch a show if you are seeing any increase in number of cases? Would you note postpone it?

So, there is a chance of

postponement of consumption and sort of consumption being -- happening at this point. And so, consumption drives about 70 percent of US GDP. So, that would definitely impact the US GDP from that standpoint because there is an increased fear. So, one is from consumer standpoint. We see an impact. And the other is from a supply chain standpoint, as I mentioned.

Because the global supply chain is being hit, most of the imports for the pharma companies come from China. Most of the imports for the auto companies come from China. At this point, Wuhan which is the epicenter of the outbreak in China is also an industrial hub. And so, the closure of factories around there impacts global auto companies and their production levels.

So, it's multifold. I think it kind of brings to the forefront the global nature of supply chains at this point and how an integrated China has become more -- how particularly China has become to the global supply chain overall. And it also brings to the forefront the fact that people -- that psychological impact has a bigger role to play than Fed cutting rates, which you have seen in the markets rate.

So, Fed went ahead and cut rates by 50 basis points today. That was an emergency meeting. They had a meeting in between meeting, which they have not done since 2008. And they decided to cut rates by 50 basis points. So, the market has reacted negatively. And that's because there is a skepticism out there that the Fed rate could only do so much. Maybe it could push in some of the negative impact that we might see in terms of economic growth, but it could not completely take away from it. Fed cutting rates might help you refinance your market, but it might not help you go out to, say, a Disneyland or plan that extra vacation because you have your concerns. There is that psychological fear about what the impact of the virus could be.

So in terms of how that impacts equity fundamentals is through corporate profit margins which Marc touched upon. So as consumers spend less and as you see some disruptions in the global supply chain, you will see profit margins being impacted. Companies with less than 500, the larger cap companies have come out and said they might not meet the revenue estimates for Q1. A couple have come out and speculate. There is investor -- investors are expecting that a lot more companies will miss their revenue expectations for Q1 and, also, maybe into Q2 of this year.

Earnings growth going into 2020 was expected to be much better than what we saw in 2019, which was a lackluster year for earnings growth. And so far, the expectation is that Q1 earnings growth should be closer to zero at this point. You won't see a jump up in earnings in Q1. And you will see an impact on profit margins. Profit margins might compress. And then some of that could extend into Q2 until you see a containment of the virus and until you see an effective vaccination being doubled up for the virus.

So, those are the reasons why we kind of took a step back at this point and decided to de-risk in our portfolios. Having said that, all of this could be contained in the next week. At this point, looking at the data, that seems highly unlikely, but that could happen. Even in that case, we are comfortable kind of de-risking our portfolios at this point because there is such greater uncertainty out there in terms of economic growth, that we would rather be defensively positioned.

And as we see things change, as we see that the number of new cases are coming down, which going back to that reproductive rate, if that comes down below one, that's when you see the slow kind of going down, the number of new cases going down per day. When we see that or when we see that the economic data coming out of US to the end of Q1 in, say, April or May is not as impacted, you are not seeing as much supply chain disruption. You are not seeing as much impact in corporate profit margins, that is when I see us kind of going back into equities.

So at this point, we believe that being defensively positioned serves our clients better giving the greater uncertainty.

MS. RHYNHART: So, would it have been your recommendation whenever we started to enter a recession, to do an emergency recalibration of the asset allocation?

MR. AMMATURO: Yes. That's a good question. So when we -- if we see signs of a recession, if we see signs of the domestic economy contracting, Rebecca, we undoubtedly would start to de-risk your portfolio. That came up at our investment committee meeting last Friday. Our chief investment officer said, you know, the first quarter GDP for the US is baked. You know, the first quarter is almost over.

But he is -- he's expressed concern that there may be contraction in the US economy if this gets out of -- if this virus does not get contained.

So yes, undoubtedly, if we saw a recession coming, we undoubtedly would not be in a position like this overweight equities within PGW's pension plan to answer your question directly.

MS. RHYNHART: But when we set an asset allocation, the idea is that the asset allocation is set with the risk and reward profile that we are comfortable with not just for, you know, three months, six months, one year. But absent, you know if this is the plague -- and maybe it is -- or maybe this is such a huge disruption that everything is changing in our world.

But I guess where I am having a little trouble getting my head around this, is that the asset allocation is something that should be able to stay with us for some degree of time. And maybe it's the difference between your act -- what percentage of your business is actively managed that you just make the decision versus that you give advice like us?

MR. AMMATURO: We have 13 billion where we manage. We have about 4 billion where we give advice.

MS. RHYNHART: Okay. So, your business is really geared towards being able to make quick decisions and actively manage?

MR. AMMATURO: That's drastically changed over the past ten years. The industry itself has drastically changed over the past ten years. PFM is not alone. The discretionary model has gained significant momentum industry wide with public plans nationally over the past ten years.

So yes, our business ten years ago was exact flip-flop of the numbers I just rattled off to you. Used to have about 13 billion in consultative arrangements. And those -- a majority of those have moved over actually to a discretionary relationship.

But I understand your question, Rebecca. I think you are getting at kind of the long-term strategic targets that we set on behalf of PGW. The long-term strategic targets for, you know, equity is 65 percent. But then there's a range around that number, plus or minus.

And that's what we are talking about here is to we are going to undoubtedly stay within the range, I would think, right? Correct me if I'm wrong, Chris.

MR. DiFUSCO: That's right.

MR. AMMATURO: But because we have a range, and that range was granted for events like --

MS. RHYNHART: What is the range?

MR. AMMATURO: Actually, if you flip to the back, it's right there -- if you look under the far left column, says equities is 45 to 85.

MS. RHYNHART: Oh, that's a huge range.

MR. AMMATURO: Is a huge range.

MS. RHYNHART: Oh, okay.

MR. DiFUSCO: Normally, the target is plus or minus 5 percent. That's what I thought you meant. But you're right, the range is stated larger.

MR. GOLDSMITH: There are subtargets to domestic international. I don't recall what those are off the top of my head. I think 10 to 30 are larger for international. Oh, they are there.

MS. RHYNHART: Would you also recommend that we just throw out the idea of private equity at this point, that we were talking about or private assets?

MR. AMMATURO: That's not impacted by this discussion. We still got to move forward with that.

MS. RHYNHART: Okay.

MR. DUNBAR: In fact, I think it's even better argument now in this environment. I guess, initially when I saw this, my first reaction was this is an attempt to time the market. But you seem to be suggesting a longer term more global play. If this goes away quickly, which I don't know that we are suggesting -- don't know that the data suggests it will, then it could be seen as if we are attempting to time the market. Obviously, I would be uncomfortable with that.

But you seem to be suggesting this could be contracted and prolonged effect. And you are predicting that, you know, sort of the uncertainty is if the bigger risk than us getting out of, you know, 20 percent equity and then this resolving itself and then having to jump back in. Yes, maybe we -- you know, we buy back in higher than we sold and we take that risk. But it seems to be suggesting that the greater risk is not that scenario which seems to be unlikely. It's the longer term, you know, sort of what's happened in the world. And we are starting to see in a lot of places because of China's effect on -- just on a global chain.

Everywhere, I am getting alerts. I

travel a lot internationally. I'm getting alerts from my, you know, USG counterparts that I travel with. And they are starting the squeeze on non-essential travel. And we are starting to see this all over the place, even in places where you don't quite have the virus yet.

MS. PISAPATI: And I think it's the time at which this has come that has some significance, too. You are seeing the European economy. There was an expectation that Europe was going to recover in 2019, but it was the end of 2019, you are seeing European economy struggle a little bit. And that, again, came through from China. The trade talks that they -- the trade talks that happened kind of led to a manufacturing in recession. You saw PMIs kind of come down.

And so, you saw the global trade itself coming down, going to its end of 2019. And you saw the impact of that in countries like Germany in spite of the monetary policy that they have, the economy was only growing at a 0.1/0.2 percent. And then in the US, too, if this came in at the time was growing at, say, 4 or 5 percent. Then having less of an impact, but we are so close -- we are around 1.52 percent expectation for 2020. So, that's on the lower end of the range.

At that point when you have some squeeze, what else does this lead to was a question that we were talking about. Does this lead to some sort of a domino effect? Does this lead to a time where you have seen -- you had credit spreads at historical lows. Does this kind of reverse that at this point? Does this mean that credit markets tighten a little bit more?

And what impact does that have on the overall economic growth at a time where you are seeing expectation being 1.52 percent. If it was at 4/5 percent, that's a different story because if you are 4 percent coming down to 3 percent, and you are not as worries as 1.5 coming down to 0.5 percent or close to it. And that kind of hitting that zero. And then you are -- like, that goes on for two quarters and you are in recession.

So, I think that also has an impact on how we are reacting at this point.

MR. DUNBAR: So for your clients that you are moving, what's your sort of, yes, this is a tactical play to see what happens. But are you thinking from a strategic perspective, right, what's your expectation of a fixed income market? And what percentage are you suggesting to hold in cash?

Like, what's the overall?

MR. AMMATURO: Yeah. Alex can answer.

MR. GOLDSMITH: Yeah. So, if you look at the rebalancing sheets we provided behind this, the one that is in color is sort of the recommendation that is similar to what we have done for our discretionary clients. And that is a 20 percent cut to investment policy targets within equities tilted towards passive. So, we are taking -- withdrawing the assets from passive, allowing the active managers to retain their assets, make their own decision about what -- how much be fully invested, et cetera. You can see that's being done across domestic small and then international, as well. The --

MR. AMMATURO: I'm sorry to interrupt. But the key column to look at, per Alex' comments, is the rebalancing action with the dollar signs. See that negative 60 million from Rhumbline as an example?

So if you look at that -- down that column, that's where the money potentially would flow from and then, conversely, flow to on the fixed income side.

MR. GOLDSMITH: And then the current allocation to the far left in percentages, that is where, you know, you are now. The far right resulting allocation or percentage basis, what this would all look like after the fact.

So, that's on the sources side.

The assets would be directed towards fixed income and cash in a 50/50 basis with the fixed income assets being directed towards the -- you know, the core and core plus managers both across -- equally across the intermediate and traditional core spectrum. You have an overweight to traditional core as it is. Preserving that and not adding to corporate credit or high yield is what we were doing in the -- for our discretionary clients.

So you know, the net result here is dropping about, you know, 13 percent -- excuse me, 15 percent. And the equities -- total equity. And then again with, you know, cash going from about 1 and a half percent to 9 percent and fixed income going from 31 percent to 38.7 percent.

So --

MR. DUNBAR: What's your thought on cash? The 41 million, just to be opportunistic to try to -- if this does end quicker, to try to jump back in fast? What's your thought on cash.

MR. AMMATURO: The thought on cash is fixed income. The return potential for fixed income is very, very challenged going forward. So, that's kind of the premise there. That return on cash is going to be competitive versus fixed income, we think, initial return. Not long term, obviously, but in the short term.

So that's -- if you look at even our five-year expected return for fixed income, it's about 1, 1 and a half percent. There's not much to be gained by moving all of the fixed income relative to cash is our thought.

MS. RHYNHART: When was the last time we did sort of rebalancing internally for your actively -- when you actively met --

MS. PISAPATI: In October, we increased overweight to domestic equity.

MS. RHYNHART: Was that recommended to us? I am just wondering about the -- how often you rebalance and will be -- so that we are not whipped back and forth, that we are -- to react because it does seem somewhat reactionary. So, I guess that's where I am coming from.

MR. GOLDSMITH: Yeah, no. I think, you know, we've been trying to be consistent all the time with our recommendations to this board with what we have been doing on discretionary accounts. And we have been overweight to domestic equity much like we have there. And we have managed that by, I think I mentioned before, continuing to make regular draws from the plan, you know, from equity for the most part.

I think there were several times over the fall -- and, Chris, please correct me if I'm wrong -- where I have stated, well, it's actually the current position of our investment committee that to be a little bit more overweight than this plan is. And we recommend actually drawing from fixed income as a result for this month and next month potentially.

In discussions with Chris and I and

Marc, you know, it was decided that we were going to continue the pace because we don't typically have -- we are only meeting mostly every over month. The events that we had seen in the market were not of magnitude like this to warrant inter-month meetings.

And so, we were content or at least Chris, you know, after the discussion I was content with the continuing plan of continuing with the trend from equities, not allowing them to drift excessively high and using our regular meeting because of the monthly drawings to handle that.

I would say, again, the portfolio has been positioned pretty consistently. It was not -- the magnitude of that overweight to equities was --

MS. PISAPATI: Around 5 percent.

MR. GOLDSMITH: We were already overweight. It was an incremental amount that was not even total of 5 percent. It was about another 2 percent.

MR. AMMATURO: In October, what was

the additional equity?
MS. PISAPATI: So within 60/40, it was -- we went from 63 to 65.
MR. AMMATURO: Yeah, 2 percent.
MR. GOLDSMITH: So, it was 2 percent tilt. I think at the point of this portfolio, you were around 4-plus percent overweight at that time. So again, it wasn't a large magnitude difference --
MS. RHYNHART: Okay.
MR. GOLDSMITH: -- from the staff's and our view.
MR. DUNBAR: And so, does this change -- as we think about alternatives, have you guys sort of rethought the alternative strategy in terms of -- I know we talked about, you know, private debt. We talked with some other -- you know, there is quite a correlation. But you know, strategically think about private equity would have some impact in this marketplace with what's going on.
MR. GOLDSMITH: I have -- I can answer a few of those. I have a few other

thoughts, as well.

You mentioned earlier that, you know, this may be even favor private equity more. You know, certainly, you wouldn't be seeing the whipsaw within one week of private investments. But the other side of private investments, if there is protracted slow down in GDP growth, private investments do lag. And oftentimes, their exposure to leverage can add additional risk.

So I -- it hasn't changed our plans in the long term. Over 30 years, this asset allocation would benefit from having alternative investments. I think it does impact on the near time possible implementation.

MS. RHYNHART: Okay. So, that's different than what you just said, just to be clear, right?

MR. DUNBAR: No. I think he -- I think they --

MS. RHYNHART: When I said there was a plan to go into alternatives --

MR. GOLDSMITH: We have a list of six specific managers that were under consideration at the beginning of February.

MS. RHYNHART: Okay.

MR. GOLDSMITH: Certainly, the landscape has changed. Again, if we are talking about -- if we are saying here we can see two to three or longer quarters of, again, slowing global growth, you know, I think that could impact the selection within that group of managers. And it may even prioritize the subasset class that we elect to --

MR. DUNBAR: That was the point I was trying to get.

MR. AMMATURO: Yeah. The type of alternatives might change, but the alternatives targeted overall -- to answer Rebecca's question -- is, in our opinion today, is not going to change.

What -- what it looks like, the composition that the alternative's allocation may --

MS. RHYNHART: Right.

MR. AMMATURO: But the overall allocation --

MS. RHYNHART: I meant both.

MR. AMMATURO: You meant both? Oh, okay.

MR. GOLDSMITH: This could provide an opportunity to some alternative asset classes. There is a big --

MR. DUNBAR: That's what I was -- my initial comment was.

MR. GOLDSMITH: -- disjoint in the markets.

MR. DUNBAR: I was arguing it could do that. And then, I was trying to get a sense of what have you thought about that, right, from what I think you said six managers, right? Withing those managers, I know we saw two of them. But we know within the private markets, some are going to suffer because of the -- what's happening globally. But then there could be some opportunistic plays that could -- you know, that could do well.

You know, evaluations might

artificially come down. I don't know how it's affecting the market valuations. Could create sort of a value play since you are locking up the money up for a longer term anyway.

You know, there could be all kinds of different -- obviously, with the -- this level of issue, there is a demand for something, right, whether it's, you know, different types of supplies that support, you know, getting this under control or something, you know. Just trying to wonder what the strategy within alternatives are.

MR. AMMATURO: Right now, we are in the spirit of protecting our clients' capital. That is really where this trade is -- the genesis of the trade came from, knowing our client base, knowing the conservative nature of our client base, how can we protect capital. So that's where we are starting.

We haven't got yet, Christian, to the point where what kind of opportunities does this lead to. Right now we are laser focused on trying to attempt to protect capital. I am sure we are going to have an investment meeting soon to talk about, okay, you know, as Event A, B and C occurs, maybe we get back in; as we get back in, what else do we want to consider?

But that has not been the topic of conversation to date. It's all about been protecting clients' capital.

MS. PISAPATI: Things have been rapidly evolving, too, over the last week. We saw just over the weekend, you saw change in news cycle in terms of -- things have been rapidly evolving. So, I think the next two, three weeks will be very crucial in trying to see what happens. Maybe it's just fear mongering at the end of the day or maybe there is more to it.

We all think there is more to it. That is why we are making this change in the portfolios. But I think over the next two, three weeks there will be less uncertainty. I won't say greater certainty, but at least less uncertainty which, again, will help us make those decisions at the subasset class level. And say if this was going to change, how should we change the underlying managers?

MR. DiFUSCO: I know I have asked, at least Alex and Marc fairly pointed questions. I have to be honest, I think I -- this makes me incredibly nervous, a 20 percent shift. I don't want to say on a dime but, I mean, pretty rapidly.

And I am wondering as long term -- look, as Rebecca suggests or said, it could be the plague. It could change everything. Or as you said in two or three weeks, it could be something else.

Why wouldn't it be more prudent to, as I think you and I have talked about Alex even before this started, put away whether it's out of bonds or something that have done well, a few more months of benefit payments which is a much less of a shift as opposed to trying to market time?

Because what concerns me about this is that, especially the magnitude. And look, you can prove to be prophetic. I'm not pretending to have a crystal ball any more than PFM does. But it's not just the getting out that concerns me, it's when you are going to get back in. And when I hear people say, I am going to get back in when I start to see the economic indicators improve, well, that's when everyone else is going to get back in, too.

So, how much of the upside are we going to have lost relative to the downside? And what makes PFM confident that you are going to be able to time two huge trades right?

I mean, you are going to have to do it twice. I mean, you are going to have to do this right in terms of when you get out and when we get back in. And that, that just makes me very, very nervous.

MS. RHYNHART: Chris, can you explain your -- what you said about putting aside a few benefit payments?

MR. DiFUSCO: So right, Rebecca, you know we have about 1 and a half percent in cash. The benefit payments cost us, let's say, between 2 and 2.2 million our share every month. So meaning, roughly, we have about four months of benefit payments in reserve.

Alex and I discussed as recently as a week or two ago when equity valuations were higher, I was floating the idea then of actually taking a couple more months out of equity and putting it in benefits. Given PFM's position at that time, I didn't bring that to the Commissioners. Just do that and let you and the rest of the Commissioners know.

And so, if the concern is that, you know, by third quarter, the fourth quarter, you know, we might start to see earnings improve, we might start to see things get better, why -- is it at least -- should we at least consider taking money from some things that have done well? It wouldn't be a huge amount of money. It would be somewhere, let's call it -- somewhere between probably 8 and 10 million dollars, roughly 12 would get us through to the end of the year. That's a much -- I mean, that's much less of a tweak in market timing.

Again, that's just one idea. I'm sure others -- I just -- it just -- any time I see -- if this was a couple percent, if this was 5 percent even, 20 percent in such a short period of time -- and again, the markets could drop 10 tomorrow and this could all sound terrible what I'm saying, I get it. But you have to be right twice. To me that's hard. You might be right the first time, but are you going to be right the second time, too?

That's what makes this so hard. We have all seen the studies when you miss the best 10 or 20 or 30 days in the market over the course of a year or decade, there is a really terrible impact on your returns.

MR. AMMATURO: There is two more conservative proposals. Alex didn't get a chance to walk us through. That was only one of the three proposals.

MR. DiFUSCO: No, I know. Just
talking about the one that you're --
MR. GOLDSMITH: There are two
additional. There is a few -- like I said,
it gets back to what you are saying about
missing the large data that. We are
talking at the beginning your question,
Rebecca. Stick with the asset allocation.
You go down and go up.
You know, the other -- there is
sort of -- there is a 10 percent with --
deduction to IPS targets to equities. And
you know, that's split between fixed and
cash. There is also a -- what's called a
sort of backed -- the very back one, the
one in the middle is the -- down
10 percent. And the very back of the
staple handout, this is sort of the back to
target or nearly back to targets.
The fourth option in terms of
implementing these is by dollar cost
average in combination of, you know, the
three of these plans. You know, it's a
good magnitude of assets if you move.

Chris, one thing that could be done is make these shifts in stages. If our view is that, again, you know -- you know, this could be some extended thing. Will have more info three days from now. We will have more info the following week. You know, that's a possible course of action to take.

You can also select, you know, one of these. Again, will say that 10 percent cut to targets. You know, if we are headed for some worst times, protects a little bit less on the down side. Then if there is a quick recovery, then it catches us unaware, that your back then on the up side.

I think it -- a lot of it is the appetite for that protection on the down side. I think Marc has pretty accurately explained PFM's view on that. But certainly, valid points here today. A lot of it is in the magnitude on how it can be implemented, so.

MR. AMMATURO: That is what I mentioned. I heard the term "market timing" a couple times. As I started off my remarks, that is not PFM. I think we all know that. But just to put on the record, we are a long term conservative investor. This is an anomaly. This has not happened for clients since the financial crisis where we took this kind of drastic action. This is not -- this is atypical for PFM clients' portfolios. I just want to put that out there.

It's in the spirit of a pending potential recession because of the slow down in global economies. That's kind of Rebecca's question earlier. Would you have done this if we saw a recession? The answer is yes. This is what we would be doing. We would be de-risking client portfolios before a potential recession hits.

And that's kind of, unfortunately, what's happening in front of our eyes potentially over the next two or three quarters. Again, not the first quarter GDP. That's already well baked. We are talking about the second quarter GDP and the third quarter GDP numbers. What are those numbers going to look like? Is there going to be retraction? And there is a chance that there is. If there is, we want to de-risk.

Again, it's not in the spirit of market timing. It's in the spirt of being fundamental investors and looking at the global economies and GDP here in our backyard and the impact it will have on corporate earnings and undoubtedly stock market. Which again, last week was the worst week for the stock markets since the financial crisis. And we find it our job to protect the clients' capital.

So, how can we do that? Yes, 20 percent may seem a little bit high, if you will. That's why we propose two other scenarios here in addition to that. Maybe more -- view it as more palatable conservative.

MS. RHYNHART: So, I have to go in a few minutes. But I would say that I share Chris' sentiment. I think that I would feel comfortable having a conversation around a change in 8 to 10 million and figuring out where that would come from. I think that if we are talking about a major shift, that I would want to see what that does -- I would just want to have a much more thought out conversation around that, that wouldn't be -- wouldn't feel so rushed, honestly, with asset allocation.

That's where I am. I wouldn't make any changes beyond that. So, that's my position.

MR. DiFUSCO: Donn, I know you haven't chimed in. Do you have questions or thoughts on Rebecca's comments or PFM's or mine or Christian's or anyone's?

MR. SCOTT: You know, off the top of my head, my question is and, again, I'm not familiar with the asset allocation we have. But are you -- (phones fades out.)

MS. RHYNHART: We can't hear you, Donn.

MR. SCOTT: Is this better?
MS. RHYNHART: Yes.
MR. DiFUSCO: Go ahead, Donn. Could you repeat your question?
MR. SCOTT: Absolutely.
MR. DiFUSCO: Thank you.
MR. SCOTT: I said, I'm not familiar with the asset allocation with the City's pension. But is the City considering the same type of action that we are considering?
MR. DiFUSCO: Our -- the City's consultant, and I have spoken to them multiple times, they are not recommending any change to our equity, our fixed income to any of our target weightings at present. For specific clients with certain liquidity needs or things, they may make recommendations.
But for the City pension plan, at this juncture, we received a memo from them I think as late as last night or this morning. I think I distributed it this morning. I got it late last night. They

are not recommending any changes to the asset allocation.

MR. SCOTT: Chris, can you just repeat your suggestion that you made about five minutes ago in terms of what you are --

MR. DiFUSCO: So, I was just proposing again. I think Rebecca, the Controller's suggestion, is a good one about perhaps, you know, getting additional information, looking at what it does to the long term asset allocation and return profile.

But I was suggesting that if there is a degree of discomfort folks are worried about -- liquidity, cash flow, assets dropping further -- that we could consider, I would think from fixed income, but I guess we can arguably take a tiny amount of equity risk off the table. We would take somewhere between 8 and 12 million dollars or 10 to 12 million dollars off the table, put that into cash.

That would provide us with benefit

payments through the end of December or January. And that would mean in terms of paying pensioners or in terms of trying to make such a large shift, we wouldn't necessarily have to worry about, you know, like what's this going to do to pension payments.

We would be able for the next eight or nine months to know that that money was going to be available. And then in the interim, whether it's in the next few days -- I mean, I don't think it should take staff and PFM a really long time to look at what it would do to asset allocation, long term return expectations.

We can provide that information to Controller, to Christian, to you, Donn, and have further discussions either inter-meeting again or at the next meeting on the 18th. But I'm certainly happy to do it sooner given the rapid developments in the market.

MR. SCOTT: Rebecca, is that consistent with your thoughts or you're saying we just do more analysis before we make a decision?

MS. RHYNHART: No. I said I would be open to what Chris is suggesting. I think that makes sense. We would just have to sort of have some conversation in agreement or on Chris' recommendation as to where those funds are coming from.

But I do think that make sense. It's good to have the liquidity.

MR. SCOTT: Thank you. I'm leaning that way, as well.

MR. DUNBAR: Yeah. I mean, I think when I initially saw the recommendation, I think as I said, I had a sense of timing the market. But I think after hearing a bit more, it seems like a strategic decision. Obviously, is tactical in nature. But if this goes away, then the effect is we are attempting to time the market, right, if we think we need to sort of rebalance the portfolio or go back into action relative quickly. Then it sort of serves that.

To Chris' point, you know, you have to time the getting out and time the getting if this sort of blows over. There is some indication that, you know, mortality rates being relatively low, that, you know, doesn't have a really long term effect. It's really hard, difficult to tell.

And so, I probably wouldn't be comfortable with 20 percent, you know, without a bit more information. And certainly, the sooner you do this, it's -- we are taking a guess one way or another. The sooner you do this, the better if the -- if you weigh the short term versus the long term, you know, concerns.

But you know, I would like to see a bit more information before, you know, we make a major shift in this. I would be inclined to approve at Chris's recommendation. But I do want to have conversation about that. When we talked, I want to share what you shared within my own office if it's thought would change because

I think it is information, right? Which risk is a greater risk, right? Is it getting out now or is it greater risk staying in?

And this thing, which looks like it could turn on that, which is a greater risk --

MR. AMMATURO: That's well said.

MR. DUNBAR: -- we are making right now.

MR. AMMATURO: That's well said.

MR. DUNBAR: I think we are all here with, you know, guessing. I could see sort of, you know, type of the investors you are. Seems like legitimate suggestion given how you guys think about managing. But now we have to think because of, you know, if we get it wrong, it's -- you know, it's meaningful to our folks.

Sometimes we are slower, you know. And in some cases that's good; and some cases that's bad. It's tough to know which one it is right here. Because 20 percent is pretty substantial, you know.

Obviously, there are other suggestions.
And so, I think it's unfortunate we are
slower to make moves that, you know, other
people might make.

MR. DiFUSCO: All right.

So in the next, I would say, 24
hours, I should be able to discuss with you
and Marc where the initial step where to
draw the money out, send suggestions,
recommendations. And I will, also, start
working with you guys and ladies pretty
quickly on additional information on that,
that the Commissioners have asked for in
terms of long term, you know, and what it
would do in terms of asset allocation long
term, you know.

MR. GOLDSMITH: You're talking
about what a temporary shift to cash would
do?

MR. DiFUSCO: Yeah. Depending on
how long it goes on. Like, is it a
quarter? Like, what is that going to do?

I think it would also help the
Controller's point to know -- I understand

that the alternative's plan remains moving forward. But if it's changed, what alternatives you are recommending. I think that would be helpful to know, right? Because private debt may not be first for us at this point. Maybe it still is.

I have been studying the private debt proposals. If we are now talking real estate and private equity, something else, I think that would be helpful, too. I am happy, you know, to have these conversations or meet with you here or whatever.

MR. DUNBAR: And I may be interested in moving a bit more into cash if we are thinking about, you know, another strategy that, you know, that if, you know -- I don't know the time frame it would take to really -- it's really difficult to know what alternative would make sense in a short period of time.

So, maybe say a little bit more action.

MR. DiFUSCO: Right. I can lay

that out, too.

MR. DUNBAR: To see if that makes sense.

MS. RHYNHART: Thank you for coming in.

MR. DiFUSCO: Thank you, all. Thanks, Donn. I will be in touch. Thanks, Dan.

MR. SCOTT: Okay. Thank you.

(Meeting concluded at 5:01 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

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