

Sinking Fund Commission - March Meeting - Special Session
March 3, 2020

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

IN RE: March Meeting - Special Session

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Tuesday, March 3, 2020

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This Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned cause, before Angela M. King, RPR, Court Reporter - Notary Public there being present, held at Two Penn Center, 16th Floor Conference Room on the above date, commencing at approximately 4:09 p.m., pursuant to the State of Pennsylvania General Court Rules.

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A P P E A R A N C E S

COMMISSION MEMBERS:

- Donn Scott, Chairman (Via phone)
- Christian Dunbar, Treasurer
- Rebecca Rhyhart, 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)

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

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

16 Late Friday, right around the close
17 of business, maybe right after the close of
18 business, Alex and I spoke. And I was made
19 aware that across PFM's discretionary, you
20 know, OCIO clients, they were recommending
21 or making a pretty significant tactical
22 change where they were going to take
23 20 percent of their equity portfolios from
24 their discretionary clients down and spread

1 the assets through cash and fixed income.
2 There was no change to that as of Monday
3 morning.

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

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

19 MR. AMMATURO: Thanks, Chris. I
20 think you both know -- you all know,
21 including Donn on the phone, myself and
22 Alex, Surya Pisapati is a manager on our
23 research team and portfolio strategy team
24 in the Philadelphia office. We thought it

1 was prudent to bring her along. She's also
2 an investment committee member. The
3 thought is, we would go -- Surya would go
4 over kind of the alert you have in front of
5 you.

6 Actually, does Donn have that?

7 MR. DiFUSCO: I sent it out to
8 everybody.

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

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

24 So, Chris is correct. We did move.

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

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

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

24 One high level comment I will give

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

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

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

19 MS. PISAPATI: Thanks, Marc.

20 So, we've been tracking the
21 coronavirus since the beginning of this
22 year which is when it was more and more in
23 the news. When we were tracking it in
24 initial parts of the year, during January

1 and February, it was more of less -- a
2 shock to the Chinese economy, less so
3 global GDP but more so the Chinese economy.
4 And we were tracking it from -- in terms of
5 the number of new cases.

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

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

1 number of new cases rising in China was
2 falling.

3 So to take a step back, for every
4 disease that is contagious in nature, there
5 is a reproductive rate that is associated
6 with the disease which is called R_0 . And
7 the base reproductive case, reproductive
8 rate for this particular disease has been
9 around 2.5. There are some people that
10 have put it between 1.8 and 3.7.

11 What that means is that every
12 infected person can infect two other people
13 or three other people. And if you go back
14 to your typical flu, that number is around
15 1.25. So, that kind of talks about the
16 contagious nature of this particular
17 disease. And this has only come out in the
18 last two or three weeks when there has been
19 more work put behind the cases that have
20 occurred in China. And they were able to
21 kind of glean more information from the
22 pattern that they have seen.

23 And what has happened over the last
24 week is that you've seen cases crop up in

1 places where the person has not necessarily
2 traveled to China or the person has not
3 been in close contact with someone who has
4 traveled to China. So up until that point,
5 the market thought that this was something
6 that would affect people that have very
7 close relationship or have a close contact
8 with someone who has a traveled to the
9 affected area. And what happened in
10 Washington State was that, you've seen this
11 crop up in people that did not travel or
12 did not have that direct impact or that
13 contact with someone that has traveled to
14 the affected area.

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

18 If you go back to SARS, it was just
19 spreading through direct contact,
20 person-to-person contact. And in this
21 case, this has been symptomatic in nature.
22 Which means that a person who does not show
23 all the symptoms could still be contagious.
24 And what they have done some more work on

1 the people that were affected by the
2 coronavirus in China, they found that 80
3 percent of the cases were mild in nature.
4 Eighty percent of the people showed mild
5 symptoms. The problem there is that you
6 can have mild symptoms. You can just be
7 coughing or have a mild cold. You can go
8 out and you can still have the infection in
9 you. And you could infect other people as
10 a result.

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

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

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

10 The other thing here has been the
11 supply chain. The global supply chain has
12 been so degraded, more so over the last 10,
13 15 years. So if you go back to SARS, which
14 is a good -- which is a good comparison to
15 what's going on. Back when SARS happened,
16 China was only 4 percent of global GDP.
17 Now China is close to, like, 20 percent and
18 17 percent of global GDP. And the global
19 supply chain is more integrated.

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

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

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

17 So, that's happening. And we
18 looked at that up until last week and said
19 that this means that all of this will get
20 resolved quickly enough because this is
21 being contained. But the change of our
22 view has been because of the way in which
23 this virus can spread at this point and the
24 rise in number of global cases. And that,

1 again, kind of talks about how the virus
2 has been spreading and how it's not
3 contained.

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

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

24 So, there is a chance of

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

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

20 So, it's multifold. I think it
21 kind of brings to the forefront the global
22 nature of supply chains at this point and
23 how an integrated China has become more --
24 how particularly China has become to the

1 global supply chain overall. And it also
2 brings to the forefront the fact that
3 people -- that psychological impact has a
4 bigger role to play than Fed cutting rates,
5 which you have seen in the markets rate.

6 So, Fed went ahead and cut rates by
7 50 basis points today. That was an
8 emergency meeting. They had a meeting in
9 between meeting, which they have not done
10 since 2008. And they decided to cut rates
11 by 50 basis points. So, the market has
12 reacted negatively. And that's because
13 there is a skepticism out there that the
14 Fed rate could only do so much. Maybe it
15 could push in some of the negative impact
16 that we might see in terms of economic
17 growth, but it could not completely take
18 away from it. Fed cutting rates might help
19 you refinance your market, but it might not
20 help you go out to, say, a Disneyland or
21 plan that extra vacation because you have
22 your concerns. There is that psychological
23 fear about what the impact of the virus
24 could be.

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

15 Earnings growth going into 2020 was
16 expected to be much better than what we saw
17 in 2019, which was a lackluster year for
18 earnings growth. And so far, the
19 expectation is that Q1 earnings growth
20 should be closer to zero at this point.
21 You won't see a jump up in earnings in Q1.
22 And you will see an impact on profit
23 margins. Profit margins might compress.
24 And then some of that could extend into Q2

1 until you see a containment of the virus
2 and until you see an effective vaccination
3 being doubled up for the virus.

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

16 And as we see things change, as we
17 see that the number of new cases are coming
18 down, which going back to that reproductive
19 rate, if that comes down below one, that's
20 when you see the slow kind of going down,
21 the number of new cases going down per day.
22 When we see that or when we see that the
23 economic data coming out of US to the end
24 of Q1 in, say, April or May is not as

1 impacted, you are not seeing as much supply
2 chain disruption. You are not seeing as
3 much impact in corporate profit margins,
4 that is when I see us kind of going back
5 into equities.

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

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

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

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

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

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

19 But I guess where I am having a
20 little trouble getting my head around this,
21 is that the asset allocation is something
22 that should be able to stay with us for
23 some degree of time. And maybe it's the
24 difference between your act -- what

1 percentage of your business is actively
2 managed that you just make the decision
3 versus that you give advice like us?

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

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

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

19 So yes, our business ten years ago
20 was exact flip-flop of the numbers I just
21 rattled off to you. Used to have about
22 13 billion in consultative arrangements.
23 And those -- a majority of those have moved
24 over actually to a discretionary

1 relationship.

2 But I understand your question,
3 Rebecca. I think you are getting at kind
4 of the long-term strategic targets that we
5 set on behalf of PGW. The long-term
6 strategic targets for, you know, equity is
7 65 percent. But then there's a range
8 around that number, plus or minus.

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

14 MR. DiFUSCO: That's right.

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

18 MS. RHYNHART: What is the range?

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

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

1 MR. AMMATURO: Is a huge range.

2 MS. RHYNHART: Oh, okay.

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

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

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

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

19 MS. RHYNHART: Okay.

20 MR. DUNBAR: In fact, I think it's
21 even better argument now in this
22 environment. I guess, initially when I saw
23 this, my first reaction was this is an
24 attempt to time the market. But you seem

1 to be suggesting a longer term more global
2 play. If this goes away quickly, which I
3 don't know that we are suggesting -- don't
4 know that the data suggests it will, then
5 it could be seen as if we are attempting to
6 time the market. Obviously, I would be
7 uncomfortable with that.

8 But you seem to be suggesting this
9 could be contracted and prolonged effect.
10 And you are predicting that, you know, sort
11 of the uncertainty is if the bigger risk
12 than us getting out of, you know,
13 20 percent equity and then this resolving
14 itself and then having to jump back in.
15 Yes, maybe we -- you know, we buy back in
16 higher than we sold and we take that risk.
17 But it seems to be suggesting that the
18 greater risk is not that scenario which
19 seems to be unlikely. It's the longer
20 term, you know, sort of what's happened in
21 the world. And we are starting to see in a
22 lot of places because of China's effect
23 on -- just on a global chain.

24 Everywhere, I am getting alerts. I

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

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

20 And so, you saw the global trade
21 itself coming down, going to its end of
22 2019. And you saw the impact of that in
23 countries like Germany in spite of the
24 monetary policy that they have, the economy

1 was only growing at a 0.1/0.2 percent. And
2 then in the US, too, if this came in at the
3 time was growing at, say, 4 or 5 percent.
4 Then having less of an impact, but we are
5 so close -- we are around 1.52 percent
6 expectation for 2020. So, that's on the
7 lower end of the range.

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

17 And what impact does that have on
18 the overall economic growth at a time where
19 you are seeing expectation being
20 1.52 percent. If it was at 4/5 percent,
21 that's a different story because if you are
22 4 percent coming down to 3 percent, and you
23 are not as worried as 1.5 coming down to
24 0.5 percent or close to it. And that kind

1 of hitting that zero. And then you are --
2 like, that goes on for two quarters and you
3 are in recession.

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

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

14 Like, what's the overall?

15 MR. AMMATURO: Yeah. Alex can
16 answer.

17 MR. GOLDSMITH: Yeah. So, if you
18 look at the rebalancing sheets we provided
19 behind this, the one that is in color is
20 sort of the recommendation that is similar
21 to what we have done for our discretionary
22 clients. And that is a 20 percent cut to
23 investment policy targets within equities
24 tilted towards passive. So, we are

1 taking -- withdrawing the assets from
2 passive, allowing the active managers to
3 retain their assets, make their own
4 decision about what -- how much be fully
5 invested, et cetera. You can see that's
6 being done across domestic small and then
7 international, as well. The --

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

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

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

24 So, that's on the sources side.

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

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

19 So --

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

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

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

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

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

21 MS. RHYNHART: Was that recommended
22 to us? I am just wondering about the --
23 how often you rebalance and will be -- so
24 that we are not whipped back and forth,

1 that we are -- to react because it does
2 seem somewhat reactionary. So, I guess
3 that's where I am coming from.

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

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

24 In discussions with Chris and I and

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

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

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

19 MS. PISAPATI: Around 5 percent.

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

24 MR. AMMATURO: In October, what was

1 the additional equity?

2 MS. PISAPATI: So within 60/40, it
3 was -- we went from 63 to 65.

4 MR. AMMATURO: Yeah, 2 percent.

5 MR. GOLDSMITH: So, it was
6 2 percent tilt. I think at the point of
7 this portfolio, you were around 4-plus
8 percent overweight at that time. So again,
9 it wasn't a large magnitude difference --

10 MS. RHYNHART: Okay.

11 MR. GOLDSMITH: -- from the staff's
12 and our view.

13 MR. DUNBAR: And so, does this
14 change -- as we think about alternatives,
15 have you guys sort of rethought the
16 alternative strategy in terms of -- I know
17 we talked about, you know, private debt.
18 We talked with some other -- you know,
19 there is quite a correlation. But you
20 know, strategically think about private
21 equity would have some impact in this
22 marketplace with what's going on.

23 MR. GOLDSMITH: I have -- I can
24 answer a few of those. I have a few other

1 thoughts, as well.

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

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

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

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

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

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

4 MS. RHYNHART: Okay.

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

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

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

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

24 MS. RHYNHART: Right.

1 MR. AMMATURO: But the overall
2 allocation --

3 MS. RHYNHART: I meant both.

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

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

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

11 MR. GOLDSMITH: -- disjoint in the
12 markets.

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

24 You know, evaluations might

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

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

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

22 We haven't got yet, Christian, to
23 the point where what kind of opportunities
24 does this lead to. Right now we are laser

1 focused on trying to attempt to protect
2 capital. I am sure we are going to have an
3 investment meeting soon to talk about,
4 okay, you know, as Event A, B and C occurs,
5 maybe we get back in; as we get back in,
6 what else do we want to consider?

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

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

19 We all think there is more to it.
20 That is why we are making this change in
21 the portfolios. But I think over the next
22 two, three weeks there will be less
23 uncertainty. I won't say greater
24 certainty, but at least less uncertainty

1 which, again, will help us make those
2 decisions at the subasset class level. And
3 say if this was going to change, how should
4 we change the underlying managers?

5 MR. DiFUSCO: I know I have asked,
6 at least Alex and Marc fairly pointed
7 questions. I have to be honest, I think
8 I -- this makes me incredibly nervous, a
9 20 percent shift. I don't want to say on a
10 dime but, I mean, pretty rapidly.

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

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

23 Because what concerns me about this
24 is that, especially the magnitude. And

1 look, you can prove to be prophetic. I'm
2 not pretending to have a crystal ball any
3 more than PFM does. But it's not just the
4 getting out that concerns me, it's when you
5 are going to get back in. And when I hear
6 people say, I am going to get back in when
7 I start to see the economic indicators
8 improve, well, that's when everyone else is
9 going to get back in, too.

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

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

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

23 MR. DiFUSCO: So right, Rebecca,
24 you know we have about 1 and a half percent

1 in cash. The benefit payments cost us,
2 let's say, between 2 and 2.2 million our
3 share every month. So meaning, roughly, we
4 have about four months of benefit payments
5 in reserve.

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

15 And so, if the concern is that, you
16 know, by third quarter, the fourth quarter,
17 you know, we might start to see earnings
18 improve, we might start to see things get
19 better, why -- is it at least -- should we
20 at least consider taking money from some
21 things that have done well? It wouldn't be
22 a huge amount of money. It would be
23 somewhere, let's call it -- somewhere
24 between probably 8 and 10 million dollars,

1 roughly 12 would get us through to the end
2 of the year. That's a much -- I mean,
3 that's much less of a tweak in market
4 timing.

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

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

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

1 MR. DiFUSCO: No, I know. Just
2 talking about the one that you're --

3 MR. GOLDSMITH: There are two
4 additional. There is a few -- like I said,
5 it gets back to what you are saying about
6 missing the large data that. We are
7 talking at the beginning your question,
8 Rebecca. Stick with the asset allocation.
9 You go down and go up.

10 You know, the other -- there is
11 sort of -- there is a 10 percent with --
12 deduction to IPS targets to equities. And
13 you know, that's split between fixed and
14 cash. There is also a -- what's called a
15 sort of backed -- the very back one, the
16 one in the middle is the -- down
17 10 percent. And the very back of the
18 staple handout, this is sort of the back to
19 target or nearly back to targets.

20 The fourth option in terms of
21 implementing these is by dollar cost
22 average in combination of, you know, the
23 three of these plans. You know, it's a
24 good magnitude of assets if you move.

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

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

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

23 MR. AMMATURO: That is what I
24 mentioned. I heard the term "market

1 timing" a couple times. As I started off
2 my remarks, that is not PFM. I think we
3 all know that. But just to put on the
4 record, we are a long term conservative
5 investor. This is an anomaly. This has
6 not happened for clients since the
7 financial crisis where we took this kind of
8 drastic action. This is not -- this is
9 atypical for PFM clients' portfolios. I
10 just want to put that out there.

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

20 And that's kind of, unfortunately,
21 what's happening in front of our eyes
22 potentially over the next two or three
23 quarters. Again, not the first quarter
24 GDP. That's already well baked. We are

1 talking about the second quarter GDP and
2 the third quarter GDP numbers. What are
3 those numbers going to look like? Is there
4 going to be retraction? And there is a
5 chance that there is. If there is, we want
6 to de-risk.

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

17 So, how can we do that? Yes,
18 20 percent may seem a little bit high, if
19 you will. That's why we propose two other
20 scenarios here in addition to that. Maybe
21 more -- view it as more palatable
22 conservative.

23 MS. RYHNHART: So, I have to go in
24 a few minutes. But I would say that I

1 share Chris' sentiment. I think that I
2 would feel comfortable having a
3 conversation around a change in 8 to
4 10 million and figuring out where that
5 would come from. I think that if we are
6 talking about a major shift, that I would
7 want to see what that does -- I would just
8 want to have a much more thought out
9 conversation around that, that wouldn't
10 be -- wouldn't feel so rushed, honestly,
11 with asset allocation.

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

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

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

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

1 MR. SCOTT: Is this better?

2 MS. RHYNHART: Yes.

3 MR. DiFUSCO: Go ahead, Donn.

4 Could you repeat your question?

5 MR. SCOTT: Absolutely.

6 MR. DiFUSCO: Thank you.

7 MR. SCOTT: I said, I'm not
8 familiar with the asset allocation with the
9 City's pension. But is the City
10 considering the same type of action that we
11 are considering?

12 MR. DiFUSCO: Our -- the City's
13 consultant, and I have spoken to them
14 multiple times, they are not recommending
15 any change to our equity, our fixed income
16 to any of our target weightings at present.
17 For specific clients with certain liquidity
18 needs or things, they may make
19 recommendations.

20 But for the City pension plan, at
21 this juncture, we received a memo from them
22 I think as late as last night or this
23 morning. I think I distributed it this
24 morning. I got it late last night. They

1 are not recommending any changes to the
2 asset allocation.

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

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

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

24 That would provide us with benefit

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

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

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

23 MR. SCOTT: Rebecca, is that
24 consistent with your thoughts or you're

1 saying we just do more analysis before we
2 make a decision?

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

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

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

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

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

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

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

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

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

8 MR. AMMATURO: That's well said.

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

11 MR. AMMATURO: That's well said.

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

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

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

5 MR. DiFUSCO: All right.

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

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

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

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

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

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

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

22 So, maybe say a little bit more
23 action.

24 MR. DiFUSCO: Right. I can lay

1 that out, too.

2 MR. DUNBAR: To see if that makes
3 sense.

4 MS. RHYNHART: Thank you for coming
5 in.

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

9 MR. SCOTT: Okay. Thank you.

10 (Meeting concluded at 5:01 p.m.)

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

I, hereby certify that the proceedings and evidence noted are contained fully and accurately in the stenographic notes taken by me in the foregoing matter, and that this is a correct transcript of the same.

ANGELA M. KING, RPR,
Court Reporter, Notary Public

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