

Sinking Funds Commission - Meeting  
November 25, 2019

CITY OF PHILADELPHIA  
SINKING FUNDS COMMISSION  
Monday, November 25, 2019

- - -

LOCATION: Two Penn Center Plaza  
16th Floor  
Philadelphia, Pennsylvania

REPORTED BY: Amy Marzario,  
Court Reporter

PRESENT: DONN SCOTT, CHAIRMAN  
CHRISTOPHER DIFUSCO  
MARC AMMATURO  
REBECCA RHYNHART  
CHRISTIAN DUNBAR  
NICHOLAS HAND

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2 PROCEEDINGS  
3 - - -  
4 MR. SCOTT: Good morning,  
5 everyone. It's my pleasure to call this  
6 meeting of the Sinking Funds Commission to  
7 order. The first order of business is the  
8 approval of the minutes. Is there a motion?  
9 MS. RHYNHART: I'll motion.  
10 MR. SCOTT: All right. Is  
11 there a second?  
12 MS. RHYNHART: I can't second  
13 it.  
14 MR. DIFUSCO: You can second  
15 it.  
16 MR. SCOTT: Oh, I second it?  
17 Okay. The motion has been made and properly  
18 seconded. All those in favor say aye.  
19 MS. RHYNHART: Aye.  
20 MR. SCOTT: We're going to  
21 move to item number four on the agenda,  
22 Investment Performance Review. Christopher,  
23 I'll turn it over to you.  
24 MS. RHYNHART: Do you want to

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1 -- we have management and the union here.  
2 Do we want to just invite them up?  
3 MR. SCOTT: Absolutely.  
4 MS. RHYNHART: Okay.  
5 MR. SCOTT: Come on up,  
6 please.  
7 MS. RHYNHART: Just 'cause  
8 it's your pension fund.  
9 MR. DIFUSCO: So we put the  
10 September and the October numbers in.  
11 Obviously, the September numbers are a  
12 little stale at this point given that it's  
13 November 25th.  
14 MR. SCOTT: And my question  
15 is do we have the numbers to share with  
16 these guys?  
17 MR. DIFUSCO: Yeah. I'll  
18 make them copies in a second.  
19 MR. SCOTT: Okay, thanks.  
20 MR. DIFUSCO: So I had asked  
21 more questions on the September numbers and  
22 the focus is mainly on October just because  
23 it's, you know, more recent. And so, Marc,  
24 I think that's the second sheet and I will

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1 go grab a couple copies for you.  
2 MR. AMMATURO: Everyone has  
3 the October in front of them?  
4 MS. RHYNHART: Marc, can you  
5 remind me what PineBridge is? Is that an  
6 active manager?  
7 MR. AMMATURO: It's an  
8 enhanced index so it's active but it's -- I  
9 think they call themselves an enhanced index  
10 so adding a little bit over the index. So  
11 not truly active so it's kind of a quasi --  
12 MS. RHYNHART: So what's the  
13 expense on that?  
14 MR. AMMATURO: It's low. I  
15 don't know the number off the top of my  
16 head, Rebecca. I can get that.  
17 MS. RHYNHART: But it's more  
18 in line --  
19 MR. AMMATURO: It's more in  
20 line with --  
21 MS. RHYNHART: -- like with  
22 the eight or ten basis points, maybe a  
23 little bit more but not like 80 basis  
24 points?

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1 MR. AMMATURO: Exactly. I  
2 can get that number to you.  
3 MS. RHYNHART: It's okay.  
4 MR. AMMATURO: It's closer to  
5 an index fund fee than an active management  
6 fee for sure.  
7 MS. RHYNHART: Okay. I was  
8 just looking at it and I was thinking, Oh,  
9 that's a big allocation. But I'm like I'm  
10 sure we did it -- okay. So that makes more  
11 sense, an enhanced index.  
12 MR. AMMATURO: And I'm going  
13 to be talking about them in a second,  
14 actually. But let me take a step back.  
15 I'll get to PineBridge in one second if  
16 that's okay. But the October 31st update  
17 should be in the book there.  
18 The market value is up to  
19 \$551,922,841.00 as of the end of October.  
20 You can see just for the month of October  
21 this plan was up 1.7%. You can see that  
22 brings your year to date, three or four  
23 columns over, to over 16%, 16.6.  
24 I'll note, you know, it's strong

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<p style="text-align: right;">Page 6</p> <p>1 and has a net of fees. I'll note that it's 2 obviously strong on an absolute basis but 3 it's also strong on a relative basis. So 4 there's 12 basis points of outperformance 5 relative to the index. So, again, slight 6 outperformance. 7 The reason for that slight 8 outperformance is because you're overweight 9 in domestic equity and domestic equity has 10 been the best asset class. Your three-year 11 number is now 9.7. Your five-year number is 12 now creeping close to 7%. And, again, your 13 three-year number is now 9.7% and your 14 five-year number is now creeping closer to 15 7. It's at 6.98. 16 You know, why the -- before I get 17 into the managers, you know, the U.S. 18 economy is slowly growing, growing 19 positively. The last reading was 1.9%. 20 Consumer confidence continues to be high. 21 The Fed reduced rates three times this 22 calendar year. You put all those three 23 things together and that's been a tailwind 24 to the stock market for 2019.</p>	<p style="text-align: right;">Page 8</p> <p>1 been a good place to be for passive 2 investing. Domestic equity index funds have 3 done really well and you've had almost 28 -- 4 over 28% of the indexing through Rhumblin 5 and Northern Trust. 6 The one manager that the Controller 7 brought up, PineBridge, we're actually going 8 to be recommending watchlist for PineBridge. 9 If you look at the one-year number, they are 10 up 10.7%. The benchmark's up over 14%. 11 They've only been in your portfolio since 12 2017 if you look all the way to the far 13 right. 14 Again, they are up, on an actual 15 basis, strong at 9 and a half. 16 Unfortunately, the benchmark is up 10.8. 17 They're a quantitative enhanced index 18 manager and one of the key factors they look 19 for is valuation, so what stocks are trading 20 basically low. 21 So I'm just coming up on 22 PineBridge. We see the performance of the 23 headwind and into -- I'm trying to get into 24 why now. One of the key factors that they</p>
<p style="text-align: right;">Page 7</p> <p>1 There are obviously some headwinds 2 such as the ongoing impeachment hearings, 3 the trade talk with China, what's going on 4 in Hong Kong in terms of protests. There's 5 a lot of headwinds but the U.S. economy is 6 still growing. Consumer confidence is still 7 high. The Fed cut rates three times. All 8 that's been for the stock market. 9 Going back to the end of the fourth 10 quarter of 2018, you might recall a 11 significant selloff so some of this is kind 12 of a bounce back from that selloff of last 13 year in the fourth quarter. So that's 14 what's going on at a high level. 15 But in terms of your managers, when 16 we get into large cap, the two managers 17 listed that are listed first, Rhumblin and 18 Northern Trust, are both index funds so 19 they're going to capture the market at value 20 low cost. 21 So if you look at the year-to-date 22 column, the returns are very tight to the 23 benchmark, not surprising, for the month, 24 for the quarter, for the year. This has</p>	<p style="text-align: right;">Page 9</p> <p>1 look for in their quant model is valuation, 2 valuation meaning the stocks that are cheap 3 they tend to buy. Low value has 4 underperformed as of late. 5 Again, low value stocks have 6 underperformed and that's been a major, 7 major headwind. Some stocks that are 8 considered low value that have 9 underperformed including some household 10 names like Johnson &amp; Johnson, Berkshire 11 Hathaway, Exxon Mobile, these are three 12 large moldings in their plan that are 13 negative on a year-to-date basis and a 14 negative on the quarter. So that's been a 15 major headwind for PineBridge. 16 And that's a low -- what we 17 consider a low trending error manager, 18 meaning they shouldn't deviate that much 19 from the benchmark 'cause their sector 20 weights are right on top of the benchmark. 21 But, again, if you look at the one-year 22 column, underperformed by over 3, 3 and a 23 half percent, it doesn't give us the comfort 24 that it's kind of a low trending error</p>

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<p style="text-align: right;">Page 10</p> <p>1 management. We would think that the 2 dispersion would be lower going back 12 3 months for PineBridge. So that -- 4 MS. RHYNHART: What have they 5 said? Have you spoken with them? What have 6 they said about it? 7 MR. AMMATURO: Yeah. The one 8 thing I just walked through right now is the 9 valuation factors. They really looked for 10 three factors in their quant model. One is 11 sentiment, one is quality, and one is 12 valuation. The valuation factor has been a 13 significant headwind. They're buying stocks 14 that are very, very cheap and unfortunately 15 they are not performing well. 16 MS. RHYNHART: So it's just 17 their strategy hasn't worked? 18 MR. AMMATURO: One of their 19 three key factors has not been in their 20 favor. So it's an argument or a -- I 21 shouldn't say argument. It's a rationale 22 that we can get our head around. It kind of 23 makes sense. This is one of their key 24 metrics. We did take a look.</p>	<p style="text-align: right;">Page 12</p> <p>1 We're not going to terminate them next month 2 or next quarter I wouldn't think. It's just 3 heightened scrutiny but it's one step closer 4 potentially to making a change as opposed 5 to, you know, the rest of the managers so 6 it's higher scrutiny for us. Do you want to 7 chime in on that or do you agree with that? 8 MR. DIFUSCO: I share your 9 concerns. You and I had talked about this 10 and I think I talked with Alex about it a 11 few weeks ago. When we hired them, I mean, 12 and you summed it up pretty well, that 13 they're obviously inexpensive for an active 14 manager. I think they're 16 basis points, 15 if I'm off, 16 or 18. I can get you the 16 exact number. It's very cheap for active 17 management. 18 But what they sold us, so to speak, 19 and what their model shows as, you're right, 20 they shouldn't -- because of how they run 21 the strategy, they shouldn't be deviating 22 from the benchmark by 3%. If they miss, you 23 would expect a much smaller miss. And if 24 they'd outperform, you would expect a much</p>
<p style="text-align: right;">Page 11</p> <p>1 Low value is not working so far in 2 2019 so we can get our head around that. 3 That kind of makes sense. It's consistent 4 with their strategy so they're not changing 5 their stripes. But it's more to the extent 6 of the miss. 7 Again, 3 and a half percent on a 8 one-year basis for a low trend error manager 9 is a lot so that's the reason. It's not 10 like we were surprised in what they told us. 11 We were kind of expecting what they told us 12 but it's the magnitude of the miss. 13 MS. RHYNHART: What's 14 entailed with watchlist? What happens when 15 someone goes on watchlist? 16 MR. AMMATURO: I'll let Chris 17 chime in here but what watchlist means for 18 PFM is heightened scrutiny, monthly calls as 19 opposed to quarterly calls, really 20 understanding what's going on in terms of 21 buys and sells within the portfolio from a 22 PFM perspective. 23 Watchlist, correct me if I'm wrong, 24 Chris, is one step away from termination.</p>	<p style="text-align: right;">Page 13</p> <p>1 tighter outperformance. 2 So I concur with the watchlist 3 recommendation. I may be slightly closer to 4 recommending the, you know, termination 5 window to PFM. That might be where we part 6 slightly. But other than that, I agree with 7 everything that they said. 8 MS. RHYNHART: Okay. Thanks. 9 Do we have to take official action on that? 10 MR. SCOTT: I would assume. 11 MR. DIFUSCO: They're on 12 PFM's watchlist. If you want -- if we're 13 going to put them on like our version, yeah, 14 we would need to take a vote. 15 MR. SCOTT: So we have two 16 different watchlists? 17 MR. DIFUSCO: Yeah, 'cause 18 you have -- internal. Like they have one 19 that goes internal across the firm. If we 20 want to put them on watch officially here, 21 yes, we would need to do that. And I would 22 recommend that. I concur with PFM on that. 23 MR. SCOTT: That we should do 24 it now?</p>

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1 MR. DIFUSCO: Correct.  
2 MS. RHYNHART: The watchlist?  
3 Not termination, watchlist?  
4 MR. DIFUSCO: Yes, correct.  
5 MR. SCOTT: Okay. Is there a  
6 motion?  
7 MS. RHYNHART: I'll make a  
8 motion to put PineBridge on watchlist.  
9 MR. SCOTT: So a motion has  
10 been made. Is there a second?  
11 MR. DUNBAR: Second.  
12 MR. SCOTT: Okay. All those  
13 in favor, say aye.  
14 MS. RHYNHART: Aye.  
15 MR. DUNBAR: Aye.  
16 MR. SCOTT: Thank you. How  
17 long do you normally stay on the watchlist  
18 or is it a function of discretion?  
19 MR. DIFUSCO: That's a good  
20 question.  
21 MR. SCOTT: And do they know  
22 that they're on the watchlist?  
23 MR. DIFUSCO: Yeah, they'll  
24 be notified. And I don't want to give -- I

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1 mean, the answer depends. Obviously, if  
2 their performance was to improve, you know,  
3 substantially, they would come off the  
4 watchlist.  
5 If it deteriorates, you would be  
6 more likely to terminate them sooner. It's  
7 really a function of kind of how their  
8 performance responds over the next three,  
9 six months or however long the Commission  
10 decides.  
11 MR. AMMATURO: That's what I  
12 was going to say. I was going to say in a  
13 couple quarters, the decision should be  
14 made. They come off watchlist or they get  
15 terminated within a couple quarters. I  
16 wouldn't imagine they're on watchlist for a  
17 year, year and a half.  
18 MR. DIFUSCO: Yeah, it  
19 defeats the purpose.  
20 MR. AMMATURO: So good news  
21 on the small cap side, if you look at small  
22 cap and you look at the year-to-date rows --  
23 or I should say year-to-date columns, are  
24 23% positive versus a benchmark of 17.

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1 If you look at the quarter column,  
2 1.84% positive versus a benchmark that's  
3 slightly negative. So good outperformance  
4 is really early. You can see these managers  
5 were just higher --  
6 MS. RHYNHART: Higher, yeah.  
7 MR. AMMATURO: -- in August  
8 of this year. So, again, it's very, very  
9 early to make any sort of conclusions but  
10 Copeland's off to an exceptional start. If  
11 you look all the way to the far right again,  
12 they're actually positive 2.9. The  
13 benchmark is negative 2.4. They're  
14 underweight in the healthcare sector.  
15 Healthcare has been at -- has faced  
16 some serious headwinds so being underweight  
17 in that sector has helped Copeland. They're  
18 overweight in consumer staples and consumer  
19 staples have been a good place to be in  
20 calendar year 2019. So their sector weights  
21 have been very beneficial to their relative  
22 performance but all in all, a very, very  
23 good start for Copeland small cap.  
24 Rhumblin, you can see

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1 benchmark-like performance. If you look all  
2 the way to the far right, 0.99 versus 0.6.  
3 They just got into the plan in August of  
4 last year -- I mean, in August of this year.  
5 I'm sorry.  
6 On the international side, similar  
7 to small cap in terms of year-to-date  
8 outperformance, look at the year-to-date  
9 column for international equities. 16.3  
10 versus 15.4. So, again, it's good to see  
11 some incremental return event in such a  
12 strong market by our active managers. If  
13 you look at the quarter column, not as  
14 strong for the most recent quarter; 2 and a  
15 half versus 2.87.  
16 You can see Acadian slightly  
17 missed; 1 and a half versus 2.8. Earnest  
18 Partners is kind of right on top of the  
19 benchmark at 2.79 for the most recent  
20 quarter and then you see some outperformance  
21 from Rhumblin. So net net on a  
22 year-to-date basis, good relative  
23 performance.  
24 And, actually, if you look at 1, 3,

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<p>1 5, good outperformance for those periods as 2 well if you're international equity 3 composite. The most recent additions in 4 this asset class are Acadian and Earnest 5 Partners. You can see all the way to the 6 far right there again. They were just hired 7 in May -- in June of 2019. 8 Fixed income. Similar theme here. 9 If you look at the year-to-date column, it's 10 good to see outperformance. Again, it's a 11 very strong margin of not only the equity 12 side but the bond side. Bonds are up over 13 8% in 2019. Why? Because ten-year 14 treasuries have significantly declined. 15 It's an inverse relationship. 16 So when long-term rates decline to 17 the magnitude that they have in 2019, bond 18 prices rally. So quarter bonds, again, are 19 up over 8% this year. That's not a return 20 you want to get used to seeing moving 21 forward to be quite clear to segue into the 22 next conversation. But, again, that is not 23 -- and you can put that in the minutes. 24 That is not -- I don't guarantee stuff.</p>	<p>1 income, also overweight in the corporate 2 sector, up over 10% for the year now, 10.1 3 versus 8.8. They also have a very, very 4 small piece of high yield. About 3% of the 5 plan is high yield. It's not exceptional 6 which we'll see in a second. 7 Met Life investment incurred a 8 credit on a year-to-date basis, slightly 9 underperformed, 13.01 versus 13.4. But on 10 an absolute basis, obviously a very strong 11 manager -- strong return, I should say. 12 Lozard up 7.16 for the year versus 6 and a 13 half, very benchmark-like performance for 14 the month. 15 Garcia Hamilton, another fixed 16 income manager you have that's overweighted 17 in the corporate sector. For the year, 18 they're of benchmark-like. They're at 6.25 19 versus 6.8. And for the month, they're 20 benchmark-like; 0.32 versus 0.4. 21 And then your high-yield manager. 22 High yield, like I mentioned already, has 23 done exceptional this year. If you look at 24 the year-to-date column, high yield is up</p>
Page 19	Page 21
<p>1 So fixed income. Fixed income for 2 the year up 9%, 9.02. The benchmark is 8.8. 3 So, again, even in a very broad, very strong 4 market, you see some incremental return 5 which is great to see. Not so much for the 6 month or the quarter, but on a year-to-date 7 basis, you know, getting straight 8 outperformance and this is net of fees to 9 about the tune of 17 basis points on a 10 year-to-date basis. 11 So why? Weavers Barksdale. 12 Weavers Barksdale, again, if you can look at 13 the year-to-date column, outperformed by 14 about 60, 70 basis points. The theme on 15 your fixed income side is these measures 16 tend to be overweight to the corporate 17 sector within the bond market and that's 18 been a good place to be in 2019. 19 Default rates are not increasing. 20 Rates have come down which has led to 21 rallies in bond prices. So corporates have 22 done well and that's a major theme within 23 most of these managers, actually. 24 If you look at Met Life fixed</p>	<p>1 over 11%. Sky Harbor's up 11.76. The 2 benchmark's at 11.71. They're underweight. 3 The energy sector. Energy sector 4 has not been the place to be in 2019 so 5 that's been a tailwind to their relative 6 performance for the quarter, for the fiscal 7 year, and for the year-to-date period. 8 This might have been mentioned in 9 the past but just FYI, Weavers Barksdale is 10 now a female majority owned firm earlier 11 this year. They're now owned by six females 12 that own 51% of the firm. That occurred in 13 August. I just don't recall if it was 14 discussed at a prior meeting but Weavers 15 Barksdale, again, they have 40 million of 16 your pension plan. They're now female 17 majority owned. So those are my comments on 18 the month of October. 19 MR. SCOTT: Any questions 20 before we move to the next category? 21 (No response). 22 MR. SCOTT: There being none, 23 I guess we will go back up to number 3, 24 Asset Allocation Review.</p>

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1 MS. RHYNHART: Did you want  
2 us to go?

3 MR. DIFUSCO: Yeah. We  
4 didn't even know how much we were going to  
5 go but we've already been through this  
6 allocation piece twice. So I figured after  
7 your presentation if folks had questions or  
8 if they wanted to take everything kind of  
9 under advisement. But Don and I were  
10 talking and I didn't know if we were going  
11 to go through a lot of it this time.

12 MS. RHYNHART: Okay. So I'd  
13 just like to invite Nick Hand from my office  
14 up to the table. So just by way of  
15 background, the Controller's office did a  
16 similar analysis of the City's main pension  
17 plan several months back looking at risk and  
18 return and making some recommendations.

19 So we decided to do the same thing  
20 with the PGW plan. Nick heads my Finance  
21 Policy and Data Unit and is going to be  
22 presenting it. It shouldn't take more than  
23 about 10 or 15 minutes but he's going to  
24 walk you through if that works.

1 has changed in the decade but as of  
2 September 2009, the funding status of the  
3 plan was 68%.

4 And then on slide 4, the first  
5 thing we looked at was the cash flow, the  
6 plan's cash flow. So what that is is the  
7 total contributions from the employees and  
8 from PGW minus the factored payments and  
9 other sort of miscellaneous expenses, so  
10 looking at that difference.

11 And it's a pretty standard way to  
12 analyze the fiscal health of the pension  
13 plan and it provides a measure of that gap  
14 between contributions and payments. That  
15 provides the measure of how much the plan  
16 depends on the investment return to make up  
17 that gap.

18 And, historically, the plan's cash  
19 flow has been negative, meaning that the  
20 plan pays out more in benefits than  
21 contributions it gets in. I think the most  
22 recent numbers, contributions are in sort of  
23 the 30 million range. That's 30, 31  
24 million. And the contributions are in --

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1 MR. SCOTT: Okay.

2 MS. RHYNHART: And I think  
3 we're on Tab 6. It definitely should be  
4 blue.

5 MR. HAND: Okay. Good  
6 morning, everyone. So we looked at various  
7 aspects of the plan and I'll walk through  
8 them briefly in this kind of presentation.  
9 But on slide 2, that's an outline of what  
10 I'm going to talk about.

11 We looked at a cash flow analysis  
12 using projections from the actuary, Aon, of  
13 the overview of the investment strategy  
14 looking at some of the current assumptions,  
15 results from the stress test that the  
16 actuary -- that we had asked the actuary to  
17 run, Aon, and then a couple other small  
18 items from the investment side of things.

19 So on slide 3, I'll dive right in  
20 with just a snapshot of where we were as of  
21 the last actuary report on July 1st. Funded  
22 status is 73% which translates to an  
23 unfunded liability of 200 million. And to  
24 put that into some historical context, a lot

1 sorry, and the benefit payments are in the  
2 55, 60 million dollar range.

3 MS. RHYNHART: And that's  
4 contributions from PGW as well as employees.

5 MR. HAND: And employees,  
6 exactly. So it's about a million from the  
7 employees and about 29 or so from PGW.

8 So on slide 5, the first chart  
9 there, these are the -- this is the funded  
10 ratio and the net cash flow under the  
11 baseline projections for the plan. And,  
12 again, this is from the actuary. So on the  
13 top panel here, we have the funded ratio  
14 starting around 73% in 2019 growing over the  
15 next 20 years to about 20% by 2038.

16 And these baseline assumptions --  
17 baseline projections assume that the rate of  
18 investment return will be 7.3%. So that's  
19 the kind of main assumption under these  
20 baseline projection sets. And in the bottom  
21 panel here, this is where we see the net  
22 cash flow. And it's shown as a percent of  
23 the total market value of the assets.

24 So the way to interpret this is,

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<p style="text-align: right;">Page 26</p> <p>1 you know, historically from 2013 to 2019, 2 the net cash flow has been between -4 and 3 -6% which means that in order to have to 4 make up that gap, that investment return 5 needs to be kind of larger than that value. 6 So if the plan returns -5% -- or, 7 sorry, if the plan's net cash flow in 2019 8 was -5% and the investment return was 7.3, 9 for example, under the baseline assumption, 10 you have that difference, that 2.3% 11 difference where you would then kind of grow 12 the funded -- grow the assets of the plan. 13 And what you see in the next 20-year 14 projection is that the cash flow has stayed 15 negative and kind of reaches a minimum of 16 6%, -6 in 2028, and then improves slightly 17 into the -5 range. 18 So in the baseline assumption 19 projected, this continues a negative cash 20 flow trend that we've seen in the past. And 21 then on slide 6, we wanted to kind of put 22 this into historical -- some context, right? 23 We wanted to look at some other public 24 plans. How does our cash flow for the plan</p>	<p style="text-align: right;">Page 28</p> <p>1 And on slide 7, that's just 2 highlighting the next chart there. That's 3 just highlighting the comparison to the 50 4 state plans. So we have the funded ratio 5 shown as the gray bars. So the Y axis here 6 is sorted by funded ratio with the highest 7 funded ratio states up at the top there. 8 And then the blue diamonds, that shows the 9 three-year cash flow. 10 And the top axis is funded ratio, 11 bottom axis is that three-year cash flow. 12 And so more to the right in terms of cash 13 flow means more negative. And what you can 14 see is that the PGW plan is right in the 15 middle there in terms of funded ratio, about 16 70% or so, 73%. But the three-year cash 17 flow, only nine of those states have values 18 that are more to the right, more negative. 19 So, you know, we're not quite 20 Kentucky or New Jersey. They are down at 21 the bottom with very strongly negative cash 22 flows and a low funded ratio which is very, 23 very good. But just in terms of trying to 24 put this number into context, we're kind of</p>
<p style="text-align: right;">Page 27</p> <p>1 compare to other public plans? 2 And the first thing that we did was 3 look at the other 50 state plans. So we 4 went and got the three-year cash flow values 5 for the 50 state plans and only nine of 6 those states have a cash flow that's more 7 negative than the PGW plan. 8 And the second comparison that we 9 made was to a database, the public plans 10 database. There's a database of 187 public 11 plans. The median cash flow for those plans 12 was -2.9% where the PGW plan, the three-year 13 cash flow is -4.5%. So, again, the PGW 14 plan, more negative than sort of other 15 public plans that are kind of out there 16 right now. 17 So, again, just to underscore, the 18 risk here is if investment returns 19 underperform the 7.3 assumption, then 20 because of that net cash flow being 21 negative, assets might have to be liquidated 22 and then you have to liquidate those assets 23 to pay the benefit, to make up that gap 24 between contributions and benefit payments.</p>	<p style="text-align: right;">Page 29</p> <p>1 right in the middle of the funded ratio but 2 a little bit towards the outlining of the 3 three-year cash flow value. 4 So in addition to the cash flow, we 5 also looked at investment strategy, right? 6 And sort of for more than a decade, kind of 7 as long as we could find documentation, a 8 plan has maintained the 65/35% split between 9 equities and fixed income. And what that 10 has meant more recently is that there's been 11 a shift towards passive management and to 12 lower management fees. 13 So in 2012, the allocation to 14 passive or indexing was 6.4%. And in 2019, 15 the most recent number was 41.6% of total 16 assets were passively managed indexing. And 17 corresponding with that decrease in passive 18 -- decrease in active management shifting 19 towards passive has been a lowering of the 20 overall management fees for the plan. 21 FYI, 14.49% total assets were paid 22 in management fees. And then in 2018, the 23 fiscal year 2018, 0.37. So a shift toward 24 lowering fees of the overall plan.</p>



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1 MR. SCOTT: Can you translate  
2 that decrease from 0.49 to 0.37 into  
3 dollars?  
4 MR. HAND: Dollars? I can't  
5 at the moment. I don't know if Chris could  
6 but we can --  
7 MR. DIFUSCO: I can send that  
8 out.  
9 MR. SCOTT: Thank you.  
10 MR. DIFUSCO: So the most  
11 recent data was around 1.9 million in fees  
12 for the year. And that would also include  
13 -- lumped in with that would be not just the  
14 investment fees but invest in real bank.  
15 And something -- that would be everything,  
16 like all the -- not just the managers. But  
17 I'll get you the exact number after the  
18 meeting. I'll send it over.  
19 MR. SCOTT: Thank you.  
20 MS. RHYNHART: That would be  
21 interesting to see how much we're saving  
22 each year.  
23 MR. SCOTT: Yes.  
24 MR. HAND: And then on slide

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1 9, the next item that we looked at was the  
2 kind of evaluating the current assumptions,  
3 the actuarial assumptions of the plan. So  
4 if you look at historical returns for the  
5 plan, we looked at 2001 to 2016. The plan  
6 returned at 5.33%.  
7 And then again if you look at the  
8 median -- if you look at that public plans  
9 database, that database of 187 plans, the  
10 median return for those plans was 5.5 so  
11 we're right in line with that median percent  
12 for public plans. And then just as  
13 comparison, the City's larger plan, the  
14 municipal plan, over that same time period  
15 returned 4.77%.  
16 MR. DUNBAR: Why 2001 to '16?  
17 MR. HAND: That was what at  
18 the time was available and we wanted to have  
19 a large enough kind of time frame. This  
20 includes two recessions so we wanted to kind  
21 of have a large enough time frame to give a  
22 window and that number was just what was  
23 used in the most recent report from a Boston  
24 College study from the Center for Retirement

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1 Research.  
2 MS. RHYNHART: Yeah, and  
3 that's what -- I mean, these numbers look  
4 lower than what are shown in the PFM flash  
5 report just because the flash report does  
6 ten year which starts right after the losses  
7 from the last recession and then from  
8 inception which is from 1987.  
9 So you're missing -- the 2001 to  
10 '16 which we did pick 'cause of Boston  
11 College and the wealth of data that they put  
12 out with their study, but it is including  
13 two recessions.  
14 MR. HAND: Yes. And if you  
15 then compare that to what the -- the plan  
16 return assumption has been over that period,  
17 you know, it's currently 7.3% and the trend  
18 has been moving that downwards.  
19 So as recently as 2010, the return  
20 assumption for the plan was 8.25 and that's  
21 in line with the kind of broader trends in  
22 the public plans. The median assumed rate  
23 of return for public plans was 7.75 back in  
24 2014. That has come down to 7.25 as of

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1 2018.  
2 So we're in line with continuing to  
3 kind of lower that return assumption to  
4 better kind of match the current assumptions  
5 and moving forward for returns. And the  
6 next step that we looked at was to try to  
7 estimate what the most likely return would  
8 be on the investment side moving forward.  
9 So what we did was run a set of  
10 thousands of simulations, a very sort of  
11 standard technique in the investment world  
12 where we took the average assumptions for  
13 fixed income returns and equity returns over  
14 the next 20 years.  
15 The average values for those from a  
16 survey called the Horizon Survey which  
17 surveys about 30 investment firms and we  
18 took the average of those survey results and  
19 ran these simulations at a 65/35 split, what  
20 the plan currently has, and found that the  
21 most likely investment return moving forward  
22 was about 7%.  
23 And I think that falls right in  
24 line with what PFM has found. They've run a

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<p style="text-align: right;">Page 34</p> <p>1 very similar analysis where they have found 2 7.1% right in line with what our analysis 3 found as well. And we asked the actuary, 4 Aon, to estimate what that would mean in 5 terms of the contribution for PGW if the 6 return rate was lowered, the assumption was 7 lowered to 7%. 8 And they came back and estimated 9 that that would increase the required PGW 10 contribution that they're required to pay by 11 about 2.3 million dollars if it were lowered 12 from 7.3 to 7 just to put some numbers into 13 context there. 14 And then on slide 11, we also asked 15 the actuary to run a few stress tests of the 16 plans. So not the baseline plan assumptions 17 but to alternate scenarios where we 18 simulated a great recession-like event. 19 So this is the asset shock scenario 20 shown in yellow in the figure here on slide 21 11 where there's a -30% return in 2018 22 followed by three years of +12% and then 23 baseline 7.3% returns moving forward. 24 And the second scenario that was</p>	<p style="text-align: right;">Page 36</p> <p>1 in 2018 with the 73%, by 2038 in 20 years, 2 each year we only get 5% returns and you're 3 down to about 60% in terms of the fund ratio 4 and that's really the impact of that 5 negative cash flow. 6 And on slide 12, you can also look 7 at how this impacts the required 8 contribution for PGW for these two 9 alternative scenarios. The asset shock 10 scenario, the required contribution jumps 11 immediately because of that single-year 12 drop. And then on average, the annual 13 increase is about 12.2 million over that 14 20-year period. 15 Over the baseline assumption, 16 that's an additional 12.2 million each year 17 on average. And then under the 5% return 18 scenario, the extra contribution slowly 19 builds over the 20 years as we continue to 20 kind of have to liquidate assets and trying 21 to make up that difference. 22 So for the 5% return scenario on 23 average, an extra 9.4 million dollars over 24 that 20-year time period. Then, lastly,</p>
<p style="text-align: right;">Page 35</p> <p>1 simulated was a set of 20 years where each 2 year the investment return wasn't 7.3 but 3 the investment return was 5%. So each year 4 not meeting that 7.3 assumption and each 5 year only getting 5% in returns, and that's 6 shown in blue. 7 So you can see in the asset shots 8 there, you can see that drop in funded ratio 9 from 73 to just about 45 and then a slow 10 recovery. And by the end of the 20 years, 11 you're at about 80% where under the baseline 12 assumptions you were at 90%. 13 And then in the 5% return scenario, 14 this is where really you start to see the 15 impact of the negative cash flow. Because 16 the net cash flow is more negative than 5% 17 and you're only getting 5% in investment 18 returns, each year you have to liquidate 19 your assets and your funded ratio drops. 20 So each year, you're liquidating 21 some assets to pay benefits because the 22 investment returns aren't making up that 23 gap. And, correspondingly, you see the 24 funded ratio continue to drop. So starting</p>	<p style="text-align: right;">Page 37</p> <p>1 there were just a couple of small things 2 that we wanted -- 3 MR. DUNBAR: One quick 4 question? 5 MR. HAND: Yeah, sure. 6 MR. DUNBAR: You use 30% of 7 the asset shock. Is there -- why 30%? 8 MR. HAND: Yes. So that's 9 consistent with the Dodd Frank Act. That 10 was -- the kind of impetus behind that was 11 the Dodd Frank Act and trying to -- it's 12 larger than the Great Recession but trying 13 to estimate -- trying to basically capture 14 what the worst case scenario could be. And 15 we looked to the Dodd Frank Act, the 16 regulations laid out in that. 17 MR. DUNBAR: Do you remember 18 what the aftershock was during '08/'09? 19 MR. DIFUSCO: So I think it's 20 -- well, it depends on how you define it. 21 If you define it just based on equities, it 22 would be larger than that but I know that 23 the -- just by way of comparison, the 24 municipal lost about 19, 19 and a half</p>

10 (Pages 34 to 37)

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1 percent.  
2 MS. RHYNHART: In one year  
3 and five in the others?  
4 MR. DIFUSCO: Yes. I was  
5 just doing that but you're absolutely right.  
6 So 19 the first year and then five the  
7 following. And so, you know, 30 in that  
8 sense is not -- and, again, combined with  
9 the Dodd Frank regulations is not, you know,  
10 it's not an out-of-line scenario based on,  
11 you know, past precedent and kind of  
12 assuming the worst of the worst.  
13 MR. HAND: Yes.  
14 MR. SCOTT: And maybe I  
15 should know this but I don't. What dictates  
16 what PGW does as it relates to funding the  
17 short form?  
18 MR. HAND: So there is a  
19 funding policy.  
20 MR. SCOTT: There's a  
21 formula?  
22 MR. HAND: Yes. So right  
23 now, Chris, correct me if I'm wrong, but  
24 they're funding at a 20-year open.

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1 MS. RHYNHART: It's the  
2 higher -- it's the more --  
3 MR. HAND: Oh, higher.  
4 20-year open and 30-year closed. Right.  
5 MS. RHYNHART: It's a  
6 requirement that -- where is that set forth?  
7 It's set out in I think --  
8 MR. DIFUSCO: A letter that  
9 goes to PGW annually that the Finance  
10 Director provides assuming he makes -- or  
11 she, but assuming he makes changes, he sets  
12 out the parameters of the funding policy and  
13 that's the most recent one that he's  
14 provided.  
15 MS. RHYNHART: So every loss  
16 is spread out? So the -- it changed to the  
17 greater of the 20-year open and 30-year  
18 closed a few years ago. So the unfunded  
19 liability from a few years ago has to be  
20 advertised every year according to that.  
21 Then any additional unfunded  
22 liabilities, say, from returning either five  
23 below the -- five to seven or a big asset  
24 shock has to be then amortized according to

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1 either the -- it starts at that date and  
2 then is amortized over 20-year open or  
3 30-year closed, the greater of.  
4 So it's almost like you have the  
5 baseline unfunded and then any additional  
6 gets spread out over additional years as  
7 it's added into the unfunded liability. And  
8 then the Finance Director sets the assumed  
9 rate of return.  
10 MR. SCOTT: Thank you.  
11 MR. HAND: Great. So then on  
12 slide 13, just other considerations that we  
13 looked at, the first being -- I think this  
14 has been discussed in past meetings but 11%  
15 of our fixed income is high yield that Marc  
16 talked about. And the benchmark -- the  
17 overall benchmark for the fixed income  
18 allocation doesn't include any of these high  
19 yield low credit fixed income bonds.  
20 And we were recommending that we  
21 could then adjust that composite fixed  
22 income benchmark to include -- to better  
23 capture the high-yield allocation, that 11%,  
24 in order to kind of make sure we're

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1 evaluating those riskier assets properly.  
2 And the second was with respect to  
3 this discussion around alternatives that  
4 we've been having at the past few meetings.  
5 And I think our office, you know, we've  
6 reviewed those materials from PFM and the  
7 additional benefits. There's benefits from  
8 diversification and higher returns.  
9 You know, there are risks  
10 associated with alternatives; liquidity and  
11 higher fees, things like that. But I think  
12 with the kind of small allocations, less  
13 than 10% that we've been considering, I  
14 think our office believes those benefits  
15 outweigh those potential risks.  
16 So those were the kind of last two  
17 things that we looked at. And then on that  
18 last slide, we just have some final  
19 recommendations and I'll pass it over to the  
20 Controller to go through those.  
21 MS. RHYNHART: Thanks, Nick.  
22 So overall recommendations and the first one  
23 -- I guess Christian is the sub for Rob.  
24 And obviously, you know, you would need to

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<p>1 go back and discuss with him but the 2 recommendation is to reduce the return 3 assumption towards that 7%. 4 I know that -- I mean, I think the 5 concept and idea of investing in 6 alternatives to get up to the 7.3, we look 7 at it a little bit differently which is that 8 given the negative cash flow and the risk 9 around that that PGW should be looking to 10 reduce that assumed rate of return and then 11 at the same time can have a small allocation 12 to alternatives. 13 But there should be an increased 14 conservatism in that return assumption, 15 especially given the cash flow. I know PGW 16 has expressed some concern about making any 17 changes to it too quickly as it relates to 18 the timing of your financial statements and 19 your audit. 20 And I know that you've made some 21 mention that it would be better if this were 22 taken up in the January/February time frame. 23 That's completely fine. You know, no issue 24 from us on that. But we do think that, you</p>	<p>1 Rebecca, you and your team were gracious 2 enough to allow me to see a draft about a 3 week ago. As I told you then and I've 4 talked a little bit to PFM, no objection. 5 I've already talked to Amy on your team. 6 We can very easily put something together 7 once or twice a year in the report to 8 disclose the management fees. That's very 9 easy to do. 10 MS. RHYNHART: Okay. 11 MR. DIFUSCO: I was actually 12 able to pull the numbers. So in fiscal year 13 '18, they were about 1.9 -- 1.95 million. 14 Going back to fiscal year '14, they were 15 about 2 and a half. So you're talking about 16 a \$500,000 a year savings to date. 17 But putting -- you know, and, 18 again, that includes the consultant and the 19 custodial plan. That's an all in. The 20 stress test, if we're going to do them 21 anyway and I know we are -- if PFM 22 disagrees, no reason not to formalize that 23 investment policy statement. No objection 24 there.</p>
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<p>1 know, you should start to lower that. 2 The second recommendation is to 3 evaluate options to improve the cash flow. 4 It is a risk to have such a negative cash 5 flow so the options should be looked at in 6 that regard. 7 And then the third is to require 8 the stress test in the investment policy 9 statement. That's something that we've done 10 for the main municipal pension plan this 11 year. We made that change in the investment 12 policy statement and it's just good to have 13 a frame of reference of what would happen in 14 those scenarios and then what would the 15 required contributions from PGW have to be 16 because it gives a sense of what the rate 17 payers would have to pay. 18 And then the last one, I don't 19 think anyone disagrees with this one, just 20 to publicly disclose the annual management 21 fees. Just the best practice. So those are 22 the recommendations. If there's any 23 questions, comments? 24 MR. DIFUSCO: I talked to --</p>	<p>1 So on those -- and certainly open 2 to, you know, discussions from yourself, the 3 other commissioners about wasting improved 4 cash flow. Marc and I talked I think late 5 last week. It's not a problem to tweak the 6 benchmark to have a 10 or 11% allocation -- 7 MS. RHYNHART: Oh, good. 8 MR. DIFUSCO: -- to high 9 yield. We can create a custom benchmark at 10 90/10 or even something similar, so that's 11 very easily done as well. 12 The last one, obviously, Christian, 13 myself, whoever can take back to the Finance 14 Director. That's above my pay grade as far 15 as the assumed rate of return goes but I'm 16 happy to continue those conversations. 17 MR. DUNBAR: I mean, if I 18 could interject a bit? 19 MR. DIFUSCO: Sure. 20 MR. DUNBAR: So when we're 21 thinking about PGW, we have to think about 22 the system as a whole. And so reducing the 23 assumed rate of return besides obviously 24 increasing the contribution of PGW, we also</p>

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1 have to think about it from a PGW credit  
2 rate perspective as we go out to market, you  
3 know.  
4 So we're in the process of, and Joe  
5 and Dan know this well, in the process for  
6 quite some time now of trying to get PGW a  
7 rated increase. We think the rate indexes  
8 are wrong on PGW from a rating perspective  
9 and that plays significant roles in when we  
10 go to markets what to get obviously from a  
11 bond perspective.  
12 So reducing our rate of return  
13 right now would not be helpful in our  
14 effort, right, if we're going to see a  
15 reduction in the funding level. And so it's  
16 unlikely that there would be a  
17 recommendation to do that in the short term.  
18 And that includes going past  
19 January probably because, again, we're going  
20 to take PGW to market sometime next year and  
21 we're in this process right now of trying to  
22 get them a rated increase and we don't want  
23 to do anything that has a negative effect on  
24 attempting to do that. Because, again,

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1 reducing the rate of return increases their  
2 contributions.  
3 But if we then put the CA negative  
4 rate movement for PGW because of these  
5 actions, we're going to see an increase in  
6 that cost which will then, you know, have a  
7 sort of countereffect of what we would want  
8 to see from a pension perspective.  
9 So, you know, so what we think is  
10 probably a best move in a short to medium  
11 term is probably looking at asset  
12 allocation, a mix of bringing in  
13 alternatives, seeing how that plays out  
14 before we take any rate action on there, on  
15 assumed rates.  
16 MS. RHYNHART: Okay. So just  
17 to comment on that, I mean, the rating  
18 agency -- from a rating agency perspective  
19 -- and I worked at a rating agency for  
20 several years, I mean, they can see through  
21 this. So if you go and lower your assumed  
22 rate of return, that's the better practice.  
23 They know that.  
24 Of course it adds a liability to

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1 the balance sheet. They understand that.  
2 If you go to get it in rates, you're lifting  
3 the debt service coverage on the revenue and  
4 expense side. So to me, that's sort of a  
5 non-argument. There are other arguments  
6 that can be made. But from a rating agency  
7 perspective, I mean, I'm just saying that's  
8 --  
9 MR. DUNBAR: In some ways, we  
10 would absolutely agree with you and I won't  
11 play it out to be quite honest. I mean, we  
12 continue to make a commitment to our larger  
13 pension plan obviously, up and above our  
14 minimum requirement.  
15 We've continued to lower our  
16 assumed rate of return on the larger plan  
17 and we know that it's had a negative effect  
18 on ratings --  
19 MS. RHYNHART: I don't agree  
20 with that. I don't agree. But anyway,  
21 look, this is not my -- I was told very  
22 clearly on my second day in the job that the  
23 City Controller cannot vote on the assumed  
24 rate of return. Okay? So I have said my

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1 piece. It should be lowered. A few months  
2 is fine but, you know, that's my position.  
3 MR. DUNBAR: Fair enough. I  
4 mean, I think it's a responsible position.  
5 I'm not saying that. I think we have all  
6 the considerations that we think may take  
7 precedence over that in the short term.  
8 MS. RHYNHART: I think it's  
9 the wrong call but we can move on.  
10 MR. SCOTT: So what do we  
11 need to do as commissioners?  
12 MS. RHYNHART: We need to go  
13 do the other things.  
14 MR. DIFUSCO: The stress  
15 test, the management fees, and the benchmark  
16 changes. It's not in there but it's  
17 elsewhere in the presentation about adding  
18 to high yields. Those are the three  
19 recommendations.  
20 MS. RHYNHART: I can make  
21 that -- the recommendation, yeah. The  
22 recommendation to change the high-yield  
23 benchmark -- sorry, change the fixed income  
24 benchmark to add a high-yield component,

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<p style="text-align: right;">Page 50</p> <p>1 require annual stress tests in the 2 investment policy statement, and publicly 3 disclose annual management fees. I make a 4 motion for those three items to be changed. 5 MR. DUNBAR: So noted. 6 MR. SCOTT: So the motion has 7 been properly seconded. All those in favor? 8 MS. RHYNHART: Aye. 9 MR. SCOTT: So that's passed. 10 How do you resolve this other issue or you 11 just don't resolve it? 12 MR. DUNBAR: In that motion, 13 was there the allocation change? 14 MS. RHYNHART: I mean, we 15 could make a recommendation that would have 16 a divided vote but I don't know what purpose 17 it would serve. 18 MR. SCOTT: I agree with 19 that. 20 MS. RHYNHART: Yeah. So, I 21 mean, it might be -- I mean, you're Rob's -- 22 you're the Finance Director's substitute so 23 it's up to you. It's not up to you at this 24 moment but it's up to the Finance Department</p>	<p style="text-align: right;">Page 52</p> <p>1 revisit it in May. 2 MR. DUNBAR: And then the 3 asset allocation, we haven't taken an action 4 on that. Do we have alternatives? 5 MR. DIFUSCO: So -- and, 6 Marc, jump in if you think I'm wrong. I 7 think it would make sense for staff and PFM 8 to start looking at some like tentative 9 recommendations in terms of specific 10 alternatives but recognizing the amount that 11 may or may not be suitable depending on 12 where the assumed rate goes for the specific 13 type of alternatives may be a little bit in 14 flux, right? 15 We've talked about going as high as 16 ten. I think we're realistically, even at a 17 7.3, it's probably more like 5 to 7 and a 18 half. But, obviously, if we were to drop -- 19 let's say even if we made the drop to 7 -- 20 I'm completely making this up. But say you 21 just drop to 7.2, you would still probably 22 need slightly less alternatives than you 23 did. 24 So I think PFM and staff looking at</p>
<p style="text-align: right;">Page 51</p> <p>1 and the Finance Director. If they don't 2 want to do it, then I don't think the Board 3 can force them to do it. 4 MR. SCOTT: Yes. 5 MR. DIFUSCO: So would it 6 make sense -- I didn't mean to interrupt 7 you. 8 MR. SCOTT: I was just going 9 to ask do you revisit it in six months? I 10 mean, does it just go away? 11 MR. DUNBAR: I think we 12 should revisit it for sure. 13 MR. SCOTT: Okay. 14 MR. DUNBAR: 'Cause, I mean, 15 I do think it's a responsible suggestion. I 16 just think we need to revisit it just given 17 some of the things that we're trying to do 18 with PGW in a relatively short term. 19 I think we're aggressively trying 20 to get a rate increase and that has to take 21 precedence in the short term right now. But 22 I think we should revisit it in six months. 23 MR. SCOTT: Okay. 24 MS. RHYNHART: So May. We'll</p>	<p style="text-align: right;">Page 53</p> <p>1 some of the alternatives that we would 2 recommend and in what quantities makes sense 3 while this discussion plays out with the 4 Finance Director and Christian and then 5 ultimately to the commissioners. Does that 6 work from your perspective? 7 MR. AMMATURO: Yeah. I mean, 8 we can move as quickly as we want or we 9 could kind of pause for a meeting or two. 10 But, you know, if we're given the green 11 light, I think the next step is making sure 12 we're abiding by policy statements. 13 Obviously, the next step after that 14 is to say, Okay, here's some private debt 15 managers that are on PFM's approved list and 16 kind of start socializing with those 17 managers and how it works and the higher 18 fees you would incur, the illiquidity you 19 would occur, just to get more specific to 20 that particular alternative for sort of the 21 full appreciation for obviously moving 22 forward. 23 So that's the next step, education 24 around what alternatives does PFM recommend</p>

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<p style="text-align: right;">Page 54</p> <p>1 and what alternative managers does PFM 2 recommend and see where those conversations 3 go. 4 MR. DUNBAR: I mean, I would 5 think in terms of what percentage within the 6 funding should be plays a role in, you know, 7 their assumed rate of return. But the 8 question of whether we should have 9 alternatives or not I thought was somewhat 10 settled, you know, was settled to some 11 degree. 12 And I think you need a 13 recommendation from the Controller's report 14 that, you know, the risk is worthwhile into 15 the plan. So the question I guess in my 16 mind is are we having a discussion that we 17 should do alternatives? We can discuss how 18 high it goes but should we be doing 19 alternatives? Should we allow the plan to 20 do alternatives? And then at least start 21 evaluating those managers and take them a 22 step forward. 23 MR. AMMATURO: And correct me 24 if I'm wrong, Chris, but I think we're past</p>	<p style="text-align: right;">Page 56</p> <p>1 And then we can run it in 2 conjunction with -- to some degree with the 3 assumed rate of return at least in terms of 4 what percentage we should be at. 5 MR. SCOTT: I'll second 6 that. 7 MS. RHYNHART: What does that 8 exactly mean though? I mean, what type of 9 language are we at? What are we voting on? 10 Is it saying allowing alternatives no more 11 than 10% or something? 12 MR. AMMATURO: Yeah, I think 13 we need to establish a strategic long-term 14 target for alternatives and do a band of min 15 and max. 16 MR. DIFUSCO: If I recall, 17 either at the last meeting or the meeting 18 before, there was a draft that IPS provided. 19 MR. AMMATURO: Yes, there 20 was. 21 MS. RHYNHART: Oh, okay. 22 MR. DIFUSCO: I didn't 23 provide it. 24 MS. RHYNHART: It's okay.</p>
<p style="text-align: right;">Page 55</p> <p>1 the threshold where we are -- and correct me 2 if I'm wrong, but where we are going to do 3 alternatives is a matter of who we're going 4 with and what asset class within the 5 alternatives -- 6 MR. DUNBAR: I guess the 7 question is, do we need to take an official 8 action for alternatives or not? Or have we 9 already taken that action? 10 MR. DIFUSCO: We haven't 11 taken that action and it would require some 12 changes to the IPS. So, yeah, you would 13 have to take a motion to do that. I mean, 14 we -- and, obviously, Marc and I can 15 informally look at managers but in terms of 16 moving anything forward, we would need -- 17 formally, we would need tweaks to the IPS 18 and the green light from the Commission to 19 do that. 20 MR. DUNBAR: Okay. So, I 21 mean, I would then make a motion for us to 22 see some tweaks to the investment policies 23 to give us an opportunity to take action in 24 the future if we think it makes sense.</p>	<p style="text-align: right;">Page 57</p> <p>1 It's fine. 2 MR. DIFUSCO: I apologize. I 3 didn't provide it here but there was 4 specific language provided either at the 5 October meeting or the August meeting. 6 MR. AMMATURO: And it was 7 exactly that, Controller. It was kind of a 8 strategic target at a min and max so that 9 would be -- 10 MS. RHYNHART: But it was 11 something around what I just said? 12 MR. AMMATURO: Yes. 13 MR. DIFUSCO: Yeah. 14 MS. RHYNHART: Okay. I'm 15 fine with that. 16 MR. DIFUSCO: And I think 17 it'll actually be lower than ten. 18 MS. RHYNHART: Right. And we 19 would have to approve each additional -- 20 MR. DIFUSCO: Yes, each 21 manager. It's not something that PFM or 22 staff has the power to deal with it so it's 23 no different than hiring a banks manager. 24 You have to see all the research and the</p>

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<p>1 finalist and -- yeah, same process. 2 MR. AMMATURO: So is this 3 going to be parallel efforts where come to 4 our January meeting, we'll obviously 5 finalize the outcasts with alternative 6 language as well as PFM should be prepared 7 to talk about who we recommend, what asset 8 class we recommend within alternatives 9 including what managers or is that too 10 quick? I just want to -- 11 MR. DUNBAR: I'd like to hear 12 that. I mean, I don't know that there's a 13 real reason for us to wait, to the extent 14 that you can get that stuff in that time 15 frame. 16 MR. AMMATURO: We just won't 17 take any time off over the holidays. 18 MS. RHYNHART: I mean, it's 19 sort of a slow process though, right, to 20 ramp up? 21 MR. DIFUSCO: Yes. 22 MR. DUNBAR: I think the 23 commissioners still have to put things on 24 pause to allow that if you're not</p>	<p>1 the second. 2 MR. DUNBAR: So you just have 3 to say all in favor. 4 MR. SCOTT: All in favor? 5 MS. RHYNHART: Aye. 6 MR. DUNBAR: Aye. 7 MR. SCOTT: Okay. But I need 8 to understand what we're saying that about. 9 So we went through the asset allocation, 10 right? And is it all right to clarify? 11 MS. RHYNHART: Yes, please. 12 MR. DUNBAR: After the vote, 13 yes. 14 MR. SCOTT: I know it passed 15 but I thought we also said that we're going 16 to vote on each -- 17 MS. RHYNHART: We will. 18 MR. DIFUSCO: Each manager, 19 when we bring them in in the future -- 20 MR. SCOTT: That's where I'm 21 going with it. So in order to improve the 22 return, we're talking about looking at 23 different managers -- 24 MS. RHYNHART: Right.</p>
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<p>1 comfortable. 2 MS. RHYNHART: No, no. I'm 3 just saying in general, it's a slow process 4 to add private debt and private equities. 5 MR. AMMATURO: Oh, yeah. 6 They're going to call the capital and -- 7 MS. RHYNHART: Yeah. It's a 8 slow process. 9 MR. DIFUSCO: And the legal 10 negotiations take longer; the decide letters 11 and the fact that it's a general 12 partnership. 13 MS. RHYNHART: Right. 14 MR. DIFUSCO: So it's much 15 more difficult to staff PFM and Adam to 16 negotiate the contract that would be with 17 Rhumblin or Garcia Hamilton so it's 18 definitely a slow process. 19 MS. RHYNHART: So Don 20 seconded it. Do we all need to vote in 21 favor? Like I feel like it's sort of -- 22 MR. DIFUSCO: Yeah. You 23 still have to have a vote. But, yeah, there 24 was a second so there should be a vote after</p>	<p>1 MR. SCOTT: -- and different 2 asset classes -- 3 MR. AMMATURO: Within 4 alternatives. 5 MR. SCOTT: -- versus 6 waiting? 7 MR. AMMATURO: Yeah. We're 8 moving. We're going to be educating the 9 commissioners on additional managers within 10 alternatives starting in January. 11 MS. RHYNHART: Right. All we 12 did was vote on changing the investment 13 policy statement to allow for PFM to move 14 forward with researching and getting 15 together alternative options for us to then 16 vote on in January. 17 MR. SCOTT: Okay. Got it. 18 Do we have any new business? 19 MR. DIFUSCO: I do not. 20 MR. SCOTT: All right. So is 21 there a motion for adjournment? 22 MS. RHYNHART: I'll motion to 23 adjourn. 24 MR. SCOTT: All right.</p>

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1 MR. DUNBAR: I'll second it.  
2 MR. SCOTT: Thank you.  
3 - - -  
4 (This concludes the meeting  
5 at 11:05 a.m.)  
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1 CERTIFICATION  
2  
3 I hereby certify that the  
4 proceedings and evidence noted are contained  
5 fully and accurately in the stenographic  
6 notes taken by me upon the foregoing matter  
7 dated November 25, 2019 and that this is a  
8 correct transcript of the same.  
9  
10  
11 Amy Marzario  
12 Court Reporter - Notary Public  
13  
14 (The foregoing certification  
15 of this transcript does not apply to any  
16 reproduction of the same by any means,  
17 unless under the direct control and/or  
18 supervision of the certifying reporter.)  
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