

Sinking Fund Commission - November Meeting
November 14, 2018

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

IN RE: November Meeting

- - - - -
Wednesday, November 14, 2018
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This Meeting of the Sinking Fund Commission,
held pursuant to notice in the above mentioned cause,
before Angela M. King, RPR, Court Reporter - Notary
Public there being present, held at Two Penn Center,
16th Floor Conference Room on the above date,
commencing at approximately 10:05 a.m., pursuant to the
State of Pennsylvania General Court Rules.

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<p>1 2 A P P E A R A N C E S 3 4 COMMISSION MEMBERS: 5 Donn Scott, Chairman 6 Rasheia Johnson, Treasurer 7 Kellan White, Controller's Office 8 9 ALSO PRESENT: 10 Christopher R. DiFusco, CIO, PGW 11 Alex Goldsmith, PFM Asset Management 12 Marc Ammaturo, PFM Asset Management 13 City Solicitor Representatives 14 PGW Representatives 15 16 17 18 19 20 21 22 23 24</p>	<p>1 What we would like to do is pair one 2 core manager with a passive, with an index 3 manager. So, that's the first memo. We would 4 need a RFP authorizing us to search for a 5 passive manager pegged to the S&P 600. We think 6 this would do a couple things, not the least of 7 which is lower fees which I think this 8 Commission has done a good job on over the past 9 few years. We have brought down fees fairly 10 significantly. 11 I will let Marc and Alex go into the 12 details of their two memos. That is the 13 background of what we are proposing today. 14 MR. GOLDSMITH: Sure. Thanks, Chris. 15 You know, the genesis of this RFP goes 16 back to -- similarly, to the other asset classes 17 where this has been done. When we came on board 18 in early 2016, the portfolio was largely set up 19 on value growth dichotomy with style-bucket 20 managers, value, you know, characteristics and 21 then growth manager, growth characteristics. 22 It's a part of our philosophy that over 23 time, the best of those sorts of dichotomies get 24 you is a split or, at best, you can replicate</p>
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<p>1 - - - 2 CHAIRMAN SCOTT: Good morning, everyone. 3 It's my pleasure to call this meeting to order. 4 First order of business is approval of 5 the Minutes dated September 12. 6 Is there a motion? 7 MR. WHITE: Motion to approve. 8 MS. JOHNSON: Second. 9 CHAIRMAN SCOTT: All those in favor say 10 aye? 11 (Ayes.) 12 CHAIRMAN SCOTT: Ayes have it. Thank 13 you very much. 14 The next item is the Review and 15 Selection of Active Domestic Small Cap Core 16 Managers. Turn it over to you. 17 MR. DiFUSCO: Sure. I will let Marc and 18 Alex get into the detail of the two memos. It's 19 essentially, a two-part proposal. Right now we 20 have two active managers in the small cap space. 21 We have Vaughan and Eagle. We discussed 22 previously, and the Commission has approved the 23 RFP. That is why we have three candidates 24 coming in today for core manager.</p>	<p>1 index performance. We prefer, you know, using a 2 core manager approach where that manager has the 3 discretion to select which factors may 4 outperform at any given time in the market. 5 There are periods when growth significantly 6 outperforms core. We are in the midst of one of 7 those periods right now. We think letting one 8 manager make that decision rather than having 9 manager with only one mandate focus on one side 10 of the market yields better results long term. 11 Domestic equity space, if you recall, 12 with the hiring of PineBridge, it's been most 13 recently done with the international equity 14 space with the hiring of Acadia and Earnest, two 15 managers but both in the core space. Little bit 16 different approach. There is quantitative 17 elements to one and more fundamental elements to 18 the other. But again, the theme is consistent. 19 That is what we are doing today. 20 Interviewing three core managers, moving away 21 from Vaughan Nelson and Eagle. You know, which 22 if you look at their performance over time with 23 the last five years, it essentially averages out 24 to the broad Russell 2000. You are not getting</p>

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<p>1 advantage from having separate value growth over 2 periods of time. 3 Chris mentioned the use of an index. We 4 have obviously utilized an index approach in the 5 other asset classes. It does lower fees fairly 6 significantly. It removes the risk of missing a 7 benchmark. However, typically again, you are 8 not going to get any alpha above. 9 The Russell 2000 passive strategy has 10 been approved for use in the Sinking Fund since 11 early 2016, right before we came on board. It's 12 sort of been sitting on the sidelines. 13 Conventionally, the small cap space has been one 14 where active managers have been able to, you 15 know, utilize their informational advantage and 16 outperform. And so you know, we -- while we 17 have had that sort of an option to go to if we 18 felt that market conditions warranted it using 19 the Russell 2000 and a passive approach, we 20 haven't utilized that just yet. 21 One of the reasons being that when it 22 comes to indexing in the small cap space, PFM 23 believes that there is, frankly, a better index 24 to use. That's the S&P 600. That's the first</p>	<p>1 speculate, below 50 basis points. So, 2 considerable fee savings. 3 And again, you know, you will have 4 passive exposure. You are getting what the 5 total asset class does. But remember, this S&P 6 600 has higher quality index. That should, I 7 think, prevent some of the negative elements of 8 investing in index. You ride the market up, but 9 you also ride it down. One would expect higher 10 quality companies to outperform in a down 11 market. 12 I think maybe the first action -- I 13 don't know do an action item right now. It 14 would be to approve, you know, an RFP for the 15 S&P 600, to switch the benchmark on the approved 16 index from the Russell 2000 to the Russell 600. 17 That would require an RFP. 18 CHAIRMAN SCOTT: That would require 19 action? 20 MR. DiFUSCO: Correct. 21 CHAIRMAN SCOTT: The action again is to 22 approve? 23 MR. DiFUSCO: Posting an RFP. 24 MS. JOHNSON: We would need an index</p>
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<p>1 memo you see in the book here. Essentially, the 2 difference is, the S&P 600 includes -- is made 3 up of all, you know, profitable, revenue-earning 4 companies. Where the Russell 2000 includes some 5 companies that are pre-revenue, pre-profit, 6 essentially lower quantity. That's a vast much 7 larger index. And you know, it's something we 8 have done in our discretionary portfolios. 9 When we decided to add small caps, 10 whether it's for tactical short term trade or 11 diversification elsewhere, going with a passive 12 S&P 600 is a way to access the asset class while 13 keeping costs low. So that's, you know, the 14 effect of pairing an active manager with an 15 index, I think will be quite drastic on fees. 16 Right now the two funds are charging, 17 you know, 1 percent for Vaughan Nelson and 80 18 basis points for Eagle. Across the asset class, 19 you are paying all in 90. You know, the active 20 manager that you will see in a proposed very 21 attractive fees well below the current managers 22 and/or total below, but then the effective 23 pairing half the allocation with an index will 24 be a reduced all-in fee of, I don't want to</p>	<p>1 manager for the S&P 600? 2 MR. DiFUSCO: Correct. We would need 3 approval to put up the RFP. If the Commission 4 is inclined, I would ask someone to make the 5 motion to approve. 6 MS. JOHNSON: I will make a motion to 7 approve unless questions. 8 A motion to put up the RFP for the S&P 9 600. 10 MR. WHITE: Second. 11 CHAIRMAN SCOTT: All those in favor? 12 (Ayes.) 13 CHAIRMAN SCOTT: Ayes have it. 14 MR. DiFUSCO: Thank you. 15 MR. GOLDSMITH: We will write that up. 16 The following page, the next memo is the 17 summary of the three managers. I gave an 18 overview of where we were coming from and what 19 we'd ideally like to get to. 20 Like I mentioned, all three of these 21 managers are core in that they are not dictated 22 to a value or growth benchmark. All three of 23 them are benchmarked to the Russell 2000. Now 24 you might say, why don't we benchmark them to</p>

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<p>1 the S&P 600? It's -- the universe of active 2 managers and small cap, majority of them are 3 benchmarked to the Russell 2000. 4 Additionally, the plan benchmark or 5 the -- the plan benchmark is the Russell 3000. 6 We included small caps, including large caps, 7 the equity component. But the way the IPS is 8 stated, it's stated that active managers will 9 look against -- will be benchmarked against 10 broad market indexes such as the Russell 2000. 11 It is explicitly mentioned in the IPS that given 12 the total component of the plan, you know, of 13 the small cap plan should be looked at against 14 the Russell 2000. 15 It's sort of an active decision to add 16 that S&P 600. We are trying to use that 600 17 to basically beat the 2000. The active manager, 18 their goal is to beat the 2000. As a whole, 19 that is really our target in between whether 20 it's PFM staff, management. When it comes to 21 small cap space, the desired benchmark is that 22 Russell 2000. That explains the difference 23 there and why the benchmark these managers 24 against the 2000.</p>	<p>1 element to it. There are macro decisions set. 2 Human intervention is there at all areas -- at 3 all stages of the process. But this portfolio 4 is -- could be larger in terms of the number of 5 stocks. It will be somewhat more benchmark 6 like. You know, will have a higher turnover. 7 Between Copeland and Macquarie, I think 8 other slight differences there. Both tend to 9 skew towards the high quality spectrum of the 10 small cap universe. So likely, they are going 11 to hold off revenue profit companies anyway. 12 Copeland, specifically, I think they looked 13 quality in the dividend growth space. So you 14 know, I think a lot of -- they will say to 15 themselves, I think a lot of companies you think 16 of large caps paying these kind of dividends. 17 There is a lot of small cap companies 18 more greater number, actually, that are dividend 19 players. It's an indication of the health of 20 those companies how frequently and by what 21 magnitude they are able to consistently grow 22 their dividends. I think their philosophy is 23 rooted in that. 24 Whereas, Macquarie, they basically take</p>
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<p>1 You know, broadly, two of the managers 2 are fundamental managers running concentrated 3 portfolios focused on bottom-up stock selection 4 that. That is looking at each company based on 5 the individual merits of, you know, their 6 capital structure, you know, return on equity 7 investment at the company, abilities of 8 management, competitive position in their 9 market, you know, relative to similar firms, 10 competitors, you know, the traditional bottom-up 11 approach. 12 Where the other funds, those funds are 13 Copeland and Macquarie. There are some 14 distinctions between them. I will get to them 15 in a second. The other fund, Matarin. This is 16 a quantitative model driven approach. I don't 17 want to say it's formulaic in that these models 18 are built. And so, that there is constant 19 feedback given in the weighting of, you know, 20 the factors that go into model output are 21 constantly being updated or changed, adjusted or 22 based on what industry a company is in or 23 current market conditions. 24 There is, you know, portfolio manager</p>	<p>1 a pure bottom-up approach. There is not a lot 2 of, almost no macro tilt to that portfolio. 3 Their sector stock weightings are very similar 4 to the benchmark. And they are looking for the 5 best performer or best position, best -- you 6 know, operating companies within each of those 7 sectors. 8 You know, just some other asides, 9 Matarin is a certified aluminum business based 10 in New York. Macquarie, while they are owned by 11 the large Australian conglomerate, they are 12 the -- their investment management arm is 13 actually headquartered here in Philadelphia via 14 the acquisition of Delaware Investments. And 15 you know, so they qualify as a local business. 16 Copeland is based in Conshohocken which I think 17 by definition excludes them from officially 18 being considered a local business. 19 MR. DiFUSCO: I think it's also just 20 worth mentioning, Copeland's fees are on page 39 21 of their proposal. They come in -- I am 22 approximating here because of the tier breaks. 23 Copeland was by far the lowest. They are at 24 around 55 or so basis points. Matarin, they are</p>

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1 on page 17 of their proposal. They are
2 approximately 80, give or take. And Macquarie
3 is on page 32 of their proposal. And they are
4 roughly 85. And that, again, is because of the
5 tier breaks. That is why I am approximating.
6 Because it will depend on the exact dollar
7 amount that is put in.
8 So you know, Copeland came in with the
9 most competitive, you know, bid out of the
10 three.
11 MR. AMMATURO: Relative to the universe
12 of small cap managers, 55 basis points is very,
13 very low. That's usually like a large cap fee.
14 MR. DiFUSCO: Yeah. That's very low.
15 And so, we had each manager scheduled to
16 speak for approximately 20, 25 minutes, you
17 know, and answer questions, et cetera. Happy to
18 taken any preliminary questions before they
19 begin if the Commissioners have any.
20 CHAIRMAN SCOTT: Do you normally see a
21 disparity of that many basis points?
22 MR. DiFUSCO: For a fee? I think to
23 Marc's point, it was a little surprising. I
24 would have expected, you know, the lowest fee

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1 to, let's say, maybe be 65 or 70. Fifty-five is
2 very, very aggressive. I mean, you know, in a
3 positive way, not in a negative way aggressive.
4 You know as Alex mentioned, current managers who
5 I think particularly Vaughan are a little on the
6 high side. Vaughan is around 1 percent, Eagle
7 is around 80. That is more typical in the small
8 cap universe.
9 I don't think Matarin or Macquarie's
10 fees are out of line compared to the universe.
11 But Copeland is clearly, you know, aggressively
12 pushing for the business. Discounting heavily
13 relative to their peers. I would not say that
14 that's normal. It's appreciated, but it's not
15 normal.
16 MR. AMMATURO: Yeah. I echo those
17 comments. Their pricing in the business, it's
18 an outlier, 55 basis points, for small cap.
19 CHAIRMAN SCOTT: Does the City
20 potentially claim any of these?
21 MR. DiFUSCO: We do not. We've
22 interviewed Delaware for other --
23 Delaware/Macquarie. I have to go back and check
24 my notes. It's been quite a while. We may have

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1 distant pass used Matarin and/or interviewed
2 them, but it was -- I am reaching there. It may
3 have been before I started with investment
4 staff. I feel like I have some familiarity with
5 them, you know, from prior interviews. But we
6 do not use any of these three.
7 MS. JOHNSON: Just so you know, we
8 actually are in the midst of -- on the
9 investment side for the City's dollars are
10 contracting with Delaware Macquarie, so they can
11 start to manage some of the City. It's very
12 short-term.
13 MR. DiFUSCO: Okay.
14 CHAIRMAN SCOTT: When a firm gives us a
15 fee, they are locked into that fee for what
16 period of time?
17 MS. JOHNSON: Everything is negotiable.
18 MR. DiFUSCO: Everything is negotiable.
19 There is no -- we can always press -- I mean, we
20 always -- we get an initial fee. PFM and staff
21 always go back and ask for best, last and final.
22 That doesn't preclude us from pushing them again
23 at the table or after the meeting. They are not
24 locked into anything.

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1 I think to Rasheia's point, I was
2 unaware of that. I appreciate her bringing it
3 up. That may give us a little more leverage
4 with Macquarie because we can ask them, you
5 know, to basically treat all the assets as City
6 assets the same way we have done with PGW and
7 municipal plan. We want to treat everything as
8 one pile of City money for fee purposes. We may
9 be able to exert additional pressure on that to
10 lower the fees.
11 CHAIRMAN SCOTT: If a firm says 55, is
12 that forever and ever?
13 MR. DiFUSCO: No.
14 MR. AMMATURO: It's not going to go
15 higher.
16 MR. DiFUSCO: It's not going to go
17 higher. Always able to -- I apologize. I
18 didn't understand.
19 CHAIRMAN SCOTT: The bait and switch?
20 That's what I --
21 MR. DiFUSCO: No. It's not going to go
22 higher.
23 MR. WHITE: Like Comcast Cable.
24 MR. GOLDSMITH: These are five-year

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<p>1 contracts still, correct? 2 MR. DiFUSCO: They are series of rolling 3 one-year contracts. But it would never go 4 higher. If a manager came back and said they 5 wanted it to go higher, we would have to agree 6 to that, which we obviously wouldn't do. 7 Will not go higher. We will always try 8 to push it lower. Sorry about that. 9 CHAIRMAN SCOTT: No, no. No problems. 10 Should we go on with the interview process? 11 MS. JOHNSON: Yes. 12 MR. GOLDSMITH: Okay. 13 - - - 14 (Copeland Capital Management Reps brought in.) 15 - - - 16 MR. DiFUSCO: Good morning. 17 Thank you gentleman for coming in. So 18 your Commissioners are Donn Scott, Chairman; 19 City Treasurer, Rasheia Johnson; and the First 20 Deputy City Controller, Kellan White. 21 If you can take 20, 25 minutes, I will 22 try to give you hand signals, five-minute 23 warning sort of last question. Sure we will 24 have questions along the way. Just go through</p>	<p>1 that's dividend growth investing. We do it 2 across all capitalization ranges: Large, mid 3 small. And even then separately, we do it with 4 an international team as well that applies the 5 same process to international focus. 6 As I said, we are based right up here in 7 Conshohocken. We manage about 3 billion in 8 assets. We've grown quite a bit over the last 9 few years. We've added some key folks to the 10 firm as you can see by the timeline. In 2012, 11 we hired Erik Granade a formal global equity CIO 12 at Invesco. More recently as the firm has 13 grown, added Steve Adams from AMG. More 14 recently Sofia Rosala from Aberdeen Funds and 15 Anthony Godonis from Aberdeen, as well. As we 16 have grown, we have developed a very significant 17 operational and compliance infrastructure, as 18 well, which we think is a very important part of 19 the organization. 20 Page 3 tells you a little bit about some 21 of the entities we manage money for. We have a 22 very diverse client mix across different client 23 types as well as across our different 24 strategies, or small caps, mid, and all cap. I</p>
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<p>1 your strategy, your process and, you know, why 2 you think you can add value to the PGW plan. 3 MR. BARRETT: Sure. Thank you for the 4 opportunity to come in here this morning. I 5 guess just brief introductions. My name is 6 Chuck Barrett. I head up sales and relationship 7 management for Copeland Capital Management. 8 MR. GIOVANNIELLO: Mark Giovanniello. 9 I'm Chief Investment Officer and lead portfolio 10 manager on small cap strategy. 11 MR. BARRETT: Great. In the interest of 12 time, we handed out a presentation, maybe tell 13 you a little bit about the form Copeland 14 Capital. 15 We are a local firm. We are based just 16 up the road here in Conshohocken. We are 17 100 percent employee owned, most members of the 18 firm are equity owners. Every member of the 19 investment team is an equity owner in the firm. 20 We think that's an important part of our firm's 21 organizational fabric and culture. I think it 22 bleeds into how we manage the strategy as well 23 as how we manage the organization. 24 We do one thing and one thing only, and</p>	<p>1 can see some large corporate DB plans: Union 2 Pacific and Caterpillar to name a few. Some 3 large public funds: Pennsylvania Municipal 4 Retirement, Chicago Transit Authority to name a 5 few as well as some sizeable endowment 6 foundation assets. And it's some large 7 subsidized mandates with the likes of Russell 8 and JP Morgan. So if there are no questions at 9 the firm level, we can dive into the philosophy 10 and the process and how that all comes together. 11 Does that make sense? 12 MR. GIOVANNIELLO: We do layout on Slide 13 4 the team, myself as I mentioned, CIO. Lead PM 14 on the dividend growth strategy, also covering a 15 couple of sectors, healthcare, energy and 16 materials. We break up the world by sectors. 17 This team is managing all -- each of the 18 domestic strategies. And we have had stability. 19 We have -- last man hired here was John Cummings 20 back in 2014 right out of Haverford. We are 21 proud of everyone being an owner in the firm on 22 the team, even the young folks and having never 23 lost anyone and having nice stability over time 24 on the team.</p>

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<p style="text-align: right;">Page 22</p> <p>1 I think that points as well to the 2 culture, the entrepreneurial attitude at the 3 firm of a small emerging firm, but also one 4 willing to share equity with everybody. 5 The real differentiator of Copeland is 6 that we are solely focused on dividend growth 7 investing, as Chuck mentioned. We believe that 8 companies that consistently raise their dividend 9 every year are most likely to outperform the 10 market with a lot less risk, significant less 11 risk. Typically, it's been a large cap 12 phenomenon where you probably heard of many 13 firms or strategies available in the large cap 14 space, big blue chip companies such as Johnson 15 and Johnson and IBM and so on, long term 16 dividend growers. We are able to find companies 17 in the small cap space, emerging companies that 18 treat shareholders well, have a business model 19 that's conducive to producing cash every single 20 year so that they can pay and raise dividend 21 every year. As a result, it puts us into a very 22 attractive corner of the small cap market. 23 If you look on Slide 6, we show the 24 typical Efficient Frontier, the brisk reward</p>	<p style="text-align: right;">Page 24</p> <p>1 company that actually have that ability to pay 2 and raise their dividend every single year. And 3 when they raise that dividend signal, the 4 strength of their business look down into the 5 small cap only 30 percent of the company. 6 So, we are able to find companies, if 7 you look at the numbers, up in small cap, that 8 there are 800 names that have raised their 9 dividend at the current time by one year just in 10 the last year. We actually hone in more on the 11 three five-year plus div growers or average year 12 of dividend growth. Happens to be about nine 13 years in the strategy, but the availability is 14 broad. You can see there is availability of 15 800-plus names, as many or more than you have 16 when investing in large and mid cap only 17 strategies. 18 So in the two points within one, we have 19 plenty of names to pick from. But also that our 20 benchmark that is more volatile, has a low 21 percentage weight in these high quality 22 successful companies, cash flow generative 23 companies. And so, we are able to differentiate 24 dramatically from that more volatile benchmark</p>
<p style="text-align: right;">Page 23</p> <p>1 equation of where you invest in the market. 2 Typically investors are very much expecting as 3 you move down market cap, the further smaller 4 you get, the more volatility to expect. What we 5 have found is that honed in only on dividend 6 growers, if you're looking at small cap, that 7 diamond land, it actually has a risk profile 8 really closer to large mid cap stocks in 9 between. So, you are able to get access to high 10 quality companies with greater growth 11 opportunities given their size, but not take on 12 the substantial risk, what it exists in the 13 small cap benchmark. 14 If you look on Slide 7, you will see if 15 you focus in on the Russell 2000, you will see 16 54 percent of the companies in that benchmark do 17 not pay the dividend. And most of those 18 companies are not earnings companies. 19 Development stage, higher risk companies, some 20 will succeed of course. There is a huge failure 21 rate within small cap companies. If you look 22 way over on the right, the S&P 500, one of the 23 reasons we believe it's more stable and expected 24 to be less volatile is because 73 percent of the</p>	<p style="text-align: right;">Page 25</p> <p>1 but still provide what we think are extremely 2 attractive returns. If you look on Slide 8, 3 this is going back to the 80s. We asked Ned 4 Davis Research, which is research firm well 5 known in the industry based up in Boston, 6 produces a lot of studies related to dividend 7 policy for the market. Most people have seen 8 the large cap version of this study. We asked 9 them back in 2009/2010 when we started launching 10 these small mid cap strategies, to look at the 11 studies they have done for large cap companies 12 down market cap. They had never thought of it. 13 No one had ever done it. Still today, we think 14 we are the only managers out there doing 15 investing in this way. 16 Ned Davis produces this for us. And you 17 can see over time, this is back to the '80s, a 18 very attractive premium return profile even 19 though if you look at the bottom left, that risk 20 profile well below other types of stocks, they 21 break up the world by companies that pay a 22 dividend, keep it flat or is really modest. 23 Companies that, of course, we like that grow 24 their dividend and then companies that don't</p>

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<p>1 have a dividend at all or cut their dividend. 2 Of course, you know how you can expect companies 3 to do that to be highly volatile and be poor 4 performers. 5 The result in the bottom right, you can 6 see upside/downside captures. There are a lot 7 of numbers here. But one thing to hone in on is 8 the ability to only have 63 percent downside 9 capture. This is back to the '80s. It's not 10 the performance of our strategy. But when you 11 look at the actual numbers that we have had over 12 the last close to nine years running, the small 13 cap strategy, they are very similar. Upside 14 capture in the '80s, that means when the market 15 is up 10 percent, we would hope to be up 16 8 percent of that. When the market is down 17 10 percent, like it was in October, we would 18 expect to hopefully be down only 60 percent of 19 that, 6 percent. Actually, in October, we 20 outperformed by 4, 500 basis points. The 21 Russell 2000 was down 12 percent. 22 MR. GOLDSMITH: I was going to ask about 23 the statistics, what they would have looked like 24 in 2018. You say year-to-date through</p>	<p>1 growers only up 9. We were able to do 15 2 percent. We will get into why we were able to 3 do that. Has to do with our stock selection, 4 our quantitative research we do that helps us do 5 a better job picking within the dividend growth 6 universe to add value. If you asked about 2018 7 through September, there was also a major 8 headwind. Only 7 percent return for dividend 9 growers, non-dividend payers up 15. Benchmark 10 up a 11 and a half. We were a little bit ahead. 11 Only modestly ahead. That was probably a little 12 better than expected when most rapid rises in 13 the market. 14 We have had years where we outperformed 15 in big rallies. In most strong, aggressive 16 rallies, we expect a lag a little bit. Now ten 17 years into the longest running upturn in the 18 market and the economy since 2008 and 2009, we 19 think the risk of a rapid rise in the market 20 from here to the next three or five years where 21 you might be concerned or ten years is very low 22 relative to the chance for more modest returns 23 or more volatility like we are seeing emerge 24 this year in the market in the environment where</p>
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<p>1 September. Would it have been the same dividend 2 growers outperforming, or has that not been the 3 case until October. 4 MR. GIOVANNIELLO: So, we have a slide 5 on that. 6 MR. BARRETT: On page 33, you will see 7 that. 8 MR. GIOVANNIELLO: Through September and 9 actually for all of 2017 and 2018, there was a 10 very significant headwind against dividend 11 growth. So if you look on Slide 33, 2017 small 12 cap dividend grows in general were only up 9 13 percent while the bench was up 15. We, however, 14 although we are only in that dividend universe, 15 we turn 15 percent. You can see the 16 non-dividend payers, the riskier stocks were 17 actually up more. That was the year the market 18 had a preference because of the low volatility 19 requirement and the small returns of the market, 20 people gravitate towards those higher risk 21 stocks. 22 That's fine. We are fine to leave the 23 lag a little bit on those big upside moves. 24 Non-dividend payers are up 17 percent. Dividend</p>	<p>1 dividend growth really shines. 2 You can see this year we actually -- we 3 were only outperformed a little bit through 4 September despite the headwind. But during 5 October through this quarter, we are 6 outperforming by 400 basis points. Up 7 significantly as volatility spiked, the markets 8 drew down. We delivered that downside 9 protection. I think that's what our clients -- 10 Chuck mentioned the client list upfront. That's 11 what they appreciate more from us, most from us 12 is our predictability. They know we might lag 13 in an aggressive rally, but they know in over a 14 cycle, we are very likely to outperform with 15 less risk. In those tough times when they are 16 trying to protect assets of their pension, say, 17 they are more like, very likely given that 18 downside protection. 19 MR. BARRETT: Maybe it makes sense to 20 jump back to page 10 and talk about that a 21 little bit in terms of how that plays out as 22 results in blowups. And I think we will close 23 this up and entitled more specifically about the 24 process of how we manage money.</p>

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<p>1 Page 10, hopefully is eye opening to 2 you. We talked about the universe of dividend 3 growers and the small cap space. You can see 4 the reason why the benchmarks characteristics 5 are so volatiles is that this is going back to 6 the early 1990. That 23 percent of all small 7 cap, non-dividend payers will underperform the 8 benchmark every calendar year by 40 percent or 9 more. That's a big number when you contrast 10 that to the five-year dividend growers, that 11 drops to only 6. By simply avoiding that group 12 of names, we can remove a lot of the volatility. 13 Then you flip over to the far right 14 side, in terms of the -- that is the opposite by 15 outperforming by 40 points or more. Shows you, 16 we may miss a couple of home runs by being in 17 this universe, but not as many as you might 18 think. We will gladly take that trade off. We 19 actually did an analysis even yesterday. 20 In calendar 2017, there were 137 small 21 cap non-dividend -- 175, that underperformed by 22 at least 40 points or more. Forty percentage 23 points. 24 MR. GIOVANNIELLO: Because of what we</p>	<p>1 hike. Or else frankly, they are out of their 2 jobs. That's the mentality. 3 If you raise your dividend and then have 4 to cut it after that, that's a tough year in 5 future employment as manager. These companies 6 are more careful; hence, they avoid the big 7 mistakes a lot of companies make. 8 MR. DiFUSCO: You mentioned, you know, 9 how you did last month when the market turned 10 down. Maybe it was fortuitous that the products 11 started, you know, when it did in September of 12 '09 after. Have you done any back-testing to 13 see how -- 14 MR. GIOVANNIELLO: Yes. 15 MR. DiFUSCO: -- you would have 16 performed in '07, '08, early '09? And what did 17 that show? 18 MR. GIOVANNIELLO: Even to push back a 19 little bit, like, when we lunched the strategy, 20 that was probably the hardest time to launch the 21 strategy from the availability of dividend 22 growers and small cap and one side, which was 23 still enough to launch and begin a strategy. It 24 was also in the middle of big beta rally. Our</p>
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<p>1 did, our history on Slide 11 shows you that year 2 to year our presence of blowups in the 3 portfolio, you can't miss everyone, is very 4 small relative to the benchmark. And that is 5 where we get a lot of our added value. There is 6 a reason, though. It's not just that these 7 companies raise their dividend, they avoid 8 blowups. We think companies that have a 9 rational recent allocation of their cash flow 10 between investing in the business instead of -- 11 and paying some back to shareholders are more 12 cautious with shareholder capital. 13 So, a lot of companies, particularly at 14 this point in the cycle, are being very 15 aggressive with acquisitions, paying very high 16 prices and premiums for acquisitions, leveraging 17 up their balance sheet to do so, maybe building 18 capacity right at the top of the macro cycle. 19 Companies that are required by the board, by the 20 shareholders to raise that dividend every year 21 need to make decisions in the mindset of, hey, 22 will this be cash flow, free cash flow per share 23 creative to our business next year so I can 24 deliver what is expected to be another dividend</p>	<p>1 relative performance was a headwind, and has 2 been a headwind since we launched. Still beaten 3 by about 300 basis points a year. We are proud 4 of that even though it's been a double digit 5 return in market. 6 During the 2008 period, you would expect 7 that the dividend growth universe as well as our 8 model would have significant downside 9 protection. So, we would see -- we actually 10 have numbers on those studies. But pretty 11 dramatic. We actually had outperformance. We 12 had large cap strategy was live. And it did 13 beat by 10 percentage points in a down 38 14 market. I will tell you that the small cap, 15 because they are so far fewer dividend growers 16 in that bench, the outperformance was even 17 better down market cap. 18 MR. DiFUSCO: Thank you. 19 MR. GIOVANNIELLO: We even have an 20 example in here of another period. 21 MR. BARRETT: We do. Page 31 shows the 22 most substantial period of a down draft since 23 the strategy's been launched. It's pretty 24 significant, while it didn't feel like it was</p>

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<p>1 because it was spread over two different 2 calendar years. You will see from July '14 to 3 February 2016 period, the Russell 2000 was down 4 25 percent. We were down half as much. So, 5 there have been instances while the market is 6 essentially gone straight up since 2009, there 7 have been brief windows of pull backs. This one 8 that we talked about as well as October where 9 the strategy has demonstrated significant 10 downside protection characteristics.</p> <p>11 MR. GIOVANNIELLO: We have talked a lot 12 about defense. I'd like to make the point on 13 Slide 12/13, where we are actually looking for 14 growth companies. Actually, helps us keep up 15 more than would expect in conservative defensive 16 strategy in the up markets. Most people, 17 investors believe that a company that is small 18 that is paying dividend is waving the white 19 flag. We don't have any good investment 20 opportunities. We are paying out on dividend. 21 There are certainly some of those 22 companies that are high yield, low growth, 23 interest rate sensitive even companies. We are 24 not that. We are not a dividend yield strategy.</p>	<p>1 investment in the business to drive future 2 dividend growth.</p> <p>3 To Chuck's point, how we pick stocks, we 4 talked a lot about the universe and place it 5 puts us to win and beat the market. But we also 6 have on top of that a great team, a lot of now 7 over ten years since 2005, the firm running 8 quantitative models and really significant 9 research that's been done and invested to figure 10 out which company's of the universe are most 11 likely to raise their dividend to outperform and 12 which ones are most likely to cut dividend.</p> <p>13 Most important for us are criteria such 14 as dividend coverage that cushion between cash 15 flow and earnings relative to the dividend being 16 paid. As the company raises its dividend ratio 17 and the payout ratio is up too high, that 18 signals less cushion for downturn in earnings or 19 cash flow. So that in the next -- when that 20 problem hits, we might have to cut. That is, of 21 course, very tough for a stock.</p> <p>22 We are focused in on profitability of 23 the companies, the return on investment they 24 generate. If you jump to Slide 18, it gives you</p>
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<p>1 We are looking for companies that pay a modest 2 dividend, retain most of their cash flow and 3 earnings to reinvest for growth. So, we are 4 looking for the subset of our universe of 5 dividend growers that have great growth 6 opportunities in front of them. That they are 7 not just, you know, low GDP type growers, but 8 actual have the capacity to raise their dividend 9 10 to 20 percent or even more. Our average 10 dividend growth is 15 percent today in 11 accelerating as it's been a good year for 12 earnings as well as with the tax cut.</p> <p>13 Most of our companies are benefiting 14 quite a bit. In a nice pace of dividend growth 15 relative to a benchmark of 6, 7 percent dividend 16 growth.</p> <p>17 MR. BARRETT: Why don't we just get into 18 how.</p> <p>19 MR. GIOVANNIELLO: Sure. Slide 13 shows 20 you the premium growth we have relative to the 21 benchmark which results in a strategy that most 22 dividend managers or small cap are either high 23 yelled or deep value. That's not -- we are into 24 growth companies with rational conservative</p>	<p>1 a little more of the nature of our quantitative 2 process. We show seven different categories of 3 what drives, we think, the best dividend growth 4 in the future. It's companies that have high 5 profitability. They have very healthy balance 6 sheets, very little debt. Companies that 7 convert earnings into cash, they have high 8 quality earnings. You need to have that cash 9 flow to produce growing dividend. I mentioned 10 dividend health.</p> <p>11 And we are also looking for companies 12 that are consistent over time. Our modeling 13 work goes back over a decade. Many of the 14 factors that we'll look at how did earnings 15 margins, return on investment trend in other 16 tougher time periods so that we can tell our 17 investors, our clients that every company in our 18 strategy, we hope will raise that dividend 19 regardless of the macro or competitive 20 environment next year. That is where 21 fundamental research is focused on ensuring.</p> <p>22 When we start the blocking and tackling 23 on Slide 21 is a good place to look. How do we 24 pick now within a model that is telling us, hey,</p>

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<p>1 here are the top ranked names in healthcare, how 2 do we select one which ones in the top rank 3 names? We look for an understanding of how the 4 company is producing their cash flow. What is 5 their competitive mode on businesses? Is it 6 likely to continue in the future? What is the 7 growth potential of that industry? And is 8 management appropriately attacking that growth 9 opportunity by investing in the business? 10 A lot of our names might invest 11 80/90 percent of their cash back in the business 12 for growth have a modest dividend in 1 to 2 13 percent and really drive that next three to five 14 years of dividend growth when we hope the stock 15 price would be a wise investment in new or 16 higher return projects. A lot of industries 17 aren't conducive to growth. You don't want them 18 to invest that much. They should be paying out 19 more cash as a dividend or buybacks, returning 20 to shareholders. But those are less likely to 21 be names we are interested in. We are looking 22 for names with great growth opportunities. 23 Ultimately, as a team, the analysts team 24 needs to forecast, what will dividend growth be</p>	<p>1 acquisitions, not huge ones to drive double 2 digit sales growth and even better, 15 or so 3 percent dividend growth. It's a competitively 4 advantage company, strong cash flows, very 5 little macro risk. It's really in our sweet 6 spot. So if we can have a portfolio of 50 or so 7 companies with a bar chart like on twenty-three 8 with dividends moving higher, we think the stock 9 prices will follow ultimately. 10 Just quick on the sell discipline. We 11 think selling as we are when we buy, a name that 12 doesn't raise its dividend in any year is out, 13 no questions asked. We need to raise that 14 dividend. In fact, we track every dividend 15 announcement. In fact, we think one of our 16 advantages is to focus in on dividend 17 information. Others can get it, but they don't 18 pay attention. 19 The growth companies we own, others own 20 it because they're high quality. And that's 21 growth prospects. We own them when they raise 22 that dividend. And when others don't pay 23 attention to it, we have an edge in making our 24 decisions. We also look for deterioration in</p>
<p>Page 39</p> <p>1 in the future. We think we have a 15 percent 2 approximately growth forecast going forward over 3 the next three to five years. That could lead 4 to a doubling of the dividend, cash flow stream 5 in the portfolio over above four to five years 6 and, hopefully, a doubling of stock prices if we 7 don't make valuation mistakes. We care about 8 what we pay. We think we would like to pay 9 reasonable price for the growth in the quality 10 of the companies that we are investing in. And 11 if we do our job right there, we will get that 12 solution of high dividend growth. But also 13 while we go, about a 2 percent dividend yield to 14 augment our returns. 15 Maybe an example makes sense. U.S. 16 Physical Therapy is the healthcare guide. It's 17 a great story. The physical therapy industry is 18 great demographic. I know I am a big customer. 19 And it's a business that is -- demands 20 consistent growth in volumes over the years. 21 Very little macro sensitivity. It's a 22 fragmented industry. It's a company that takes 23 a 5 percent growing organic business that opens 24 new stores with cash flow. Makes a modest size</p>	<p>Page 41</p> <p>1 the model, pay out ratios that are stretched, 2 cash flow that isn't covering the dividend and 3 rate signals that have problems coming around 4 the corner. And that focus makes us better in 5 our sell decisions. 6 MR. BARRETT: I guess maybe just in 7 wrapping things up here, I guess a couple points 8 worth mentioning. On page 30, you can look at 9 the year-by-year returns of the strategy. I 10 think we did a pretty good job of pointing out 11 how the strategy can certainly protect on the 12 downside and provide some downside protection. 13 You saw that play out in 2015 where the bench 14 was down four, we were up five. Year like 2011 15 where the bench was down four, we were up one. 16 But Marc spoke to it. I think it's important to 17 highlight, it's not purely a defensive strategy. 18 In year like 2013, when the benchmark was up 19 38 percent, we were able to outperform, as well. 20 We wouldn't expect to outperform in 21 every 40 percent return environment, but we can 22 deliver to the upside, as well. It's not purely 23 a downside protection story. And I think it's 24 the consistency of that return patterns that</p>

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<p>1 enable us to generate strong returns, be 2 entrusted with the meaningful pulls of capital 3 that we have. And we would think that that type 4 of predictability would make your life easier. 5 Another thing that we wanted to highlight also 6 is up front on page 14, we didn't speak to it. 7 But obviously, as rates have increased a little 8 bit here as of late, who knows what they will do 9 in the future, but it certainly is a topic of 10 conversation. I am sure in rooms like this, as 11 well as many others are having, what happens in 12 a rising rate environment. 13 If you look historically, and that's all 14 we can look at, historically, small cap dividend 15 growth companies have actually been the best 16 performing group of small cap stocks during 17 periods of rising rates. So, these types of 18 companies we spoke to, they are not high 19 yielding dividend payers or they are not high 20 yielding payers clipping that coupon. They are 21 modest yields, high dividend growth throughout 22 most of the return from that stock price 23 depreciation, that rate of dividend growth 24 pulling the stock price higher. These names</p>	<p>1 peak? Where is that? 2 MR. BARRETT: We are at peak. 3 MR. GIOVANNIELLO: Good trajectory. 4 Consistent strategies. Back in '09, we had a 5 hundred million. Chuck and I really started 6 growing the firm, 2012 we had a billion. I 7 think we put it on the chart in 2012, we had 8 pretty consistent growth since then. 9 MR. AMMATURO: How about the break in 10 between? The institutional, how does that vary 11 over the years? 12 MR. BARRETT: It's -- our business is 13 almost exclusively institutional. We have high 14 net worth. We have a mutual fund complex, our 15 own. There is roughly 300 million in that. 16 It's relative small percentage of our assets. 17 MR. AMMATURO: Thanks. 18 MR. DiFUSCO: Thank you. 19 (Copeland Capital Management presentation ends.) 20 - - - 21 (Macquarie Firm Reps brought in.) 22 MR. CORKRAN: Thank you for having us 23 here today. It's real pleasure to have this 24 opportunity to present our capabilities with</p>
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<p>1 don't get traded out at rising rates. People 2 don't pull them for the yield. They also tend 3 to have a very healthy balance sheets. They are 4 not constrained by higher borrowing costs during 5 the period of higher rates. We wanted to point 6 that out. 7 MR. GIOVANNIELLO: Just in summary, I 8 think we would like to point out that in hiring 9 an active manager, I know everybody is looking 10 for a reason to believe they will drive some 11 significant value over a passive benchmark. We 12 think we found a solution to hone in on the 13 highest quality companies, exclude those that 14 are more volatile, more risky, have a lower rate 15 of success and derive some consistent outflow 16 over time. 17 Hope you guys can see that, as well. 18 We'd love to work with you. Thanks. 19 Are there any questions that we can hit 20 on? 21 MR. DiFUSCO: You answered mine. 22 MR. AMMATURO: You mentioned 3 billion 23 assets. Can you comment on the trend of that? 24 Is that due to firm size? Is that going to</p>	<p>1 small cap core. I am going to -- I will start 2 off with some brief introductions. And then I'm 3 going to hand the discussion over to our 4 portfolio manager Frank Morris to really give 5 you the sense for how we are doing in small 6 core. 7 My name is Skip Corkran. I'm a senior 8 member of the relationship management team at 9 Macquarie. Been at the firm for six years. And 10 I came to Delaware from BlackRock, where I spent 11 ten years as a member of their global client 12 group. I've been in the industry for about 26 13 years, and escaped most of the gray that goes 14 along with that number until I grew a beard, and 15 then it all came out. I'm probably going to 16 shave this off soon. 17 On my far right is Shawn Lytle. Shawn 18 is the Deputy Global head of Macquarie 19 Investment Management. He is our leader. He's 20 based here in Philadelphia as a member of 21 Macquarie Group's Management Committee and also 22 President of the Delaware Fund. Shawn came to 23 us in 2015 as President of Delaware Investments, 24 which we then branded in Macquarie. And prior</p>

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<p>1 to coming to us, he spent thirteen years at UBS 2 where he ran all of UBS' investment management 3 business in the Americas. He's a very 4 accomplished investment management executive, 5 and we are very pleased to have him here. He's 6 also a member of the National Association of 7 Securities Professionals, and is just coming off 8 his year as chair of that organization. And 9 also, member of the Sustainable Accounting 10 Standards Board. 11 Shawn is here because this mandate is 12 important to us and because we feel very 13 strongly about the city in which we have our 14 home headquarters. So, we wanted to make sure 15 that you know that senior eyes are going to be 16 on this mandate if we are, in fact, selected. 17 Next up is Frank Morris on my right. 18 Frank is the Chief Investment Officer for Core 19 Equity. He is the leader of the team that would 20 manage your portfolio, and is also the portfolio 21 manager who is ultimately responsible for the 22 performance of this small-cap core product. So, 23 the buck stops with Frank. 24 And he joined Macquarie in 1997, and has</p>	<p>1 you to take advantage of the entirety of the 2 firm's capabilities. So, we have teams of 3 experts and infrastructure and fixed income, 4 real estate. And we encourage our clients, 5 whoever -- whatever product they are actually 6 using, to take advantage of us and help us help 7 you in any way we can. And so, the culture of 8 access is real important. 9 With that, Shawn, I am going to hand it 10 over to you to give a few comments on the firm. 11 MR. LYTLE: Yeah. Have you go to 12 Section One behind that pretty black tab. One, 13 the firm overview and on page 6. 14 Just following on from Skip's last 15 comment. I mean, this is an important mandate 16 for us because this is our home city. And we 17 take a lot of pride in the fact that we are 18 based in Philadelphia and have always been based 19 in Philadelphia. 20 We have been here since 1929. Delaware 21 Funds, previously Delaware Investments, was 22 named after the Delaware River. And we made a 23 firm commitment after Macquarie Investment 24 Management purchased the firm almost ten years</p>
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<p>1 35 years of experience in the industry. So, 2 Frank has seen every type of market you can 3 imagine including the Crash of '87, the tech 4 bubble inflating and bursting in the '90s, and 5 then also the financial crisis in '08. So, 6 Frank is the guy you want to have around when 7 things are getting dicey in the marketplace. 8 My hope is that you come away from this 9 presentation with three key takeaways. One is 10 that Frank and his team are highly experienced. 11 The team averages over 29 years of investment 12 experience in the industry. And that's 13 meaningful value add. 14 Secondly, the disciplined approach that 15 that team employs produces very consistent 16 performance results. They are not just inclined 17 to perform well in one type of market 18 environment. They produced consistent results 19 in all types of market environments, both good 20 and bad. 21 And then finally, there is a culture of 22 access in Macquarie that really sets us apart. 23 If you become a client of ours and you manage a 24 small-cap core portfolio for you, we encourage</p>	<p>1 ago now that we were going to stay in 2 Philadelphia. 3 So currently, what we did when I came in 4 was to name this as our global headquarters for 5 the overall organization here in Philadelphia, 6 and we have continued to expand our staff. We 7 have moved from a little under 500 staff up to 8 550 over the last three years, and continue to 9 plan to invest in our home office and our home 10 team here in Philadelphia. 11 A key part of that is the equity team 12 and equity resources we have here. We trade all 13 of our equities not only for the U.S. but 14 globally out of Philadelphia. Have a large 15 trading desk here as well as have a number of 16 different equity boutiques. Frank, being the 17 leader of one of our best boutiques that we 18 have, equity boutiques we have based here in 19 Philadelphia. But we have a number of other 20 teams. And that point about delivering a high 21 touch client service and customer portfolio is 22 important. 23 Page 7 and 8, I'll just touch on these 24 briefly. You know, page 7 is the commercial,</p>

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<p style="text-align: right;">Page 50</p> <p>1 what you see from every asset management, our 2 commercial is this. We are a top 50 global 3 asset manager. And we are top 50 global asset 4 manager that's actually based in Philadelphia. 5 We also very proud of the fact we have 6 the 43rd largest mutual fund family in the 7 United States. Actually this year, we are 8 actually ranked number 23 in term of flows in 9 term of mutual funds. There aren't many winners 10 in mutual fund industry. There aren't many 11 winners in active management funds in the mutual 12 fund industry. Frank's fund, actually, has been 13 one of the number one flow funds in this 14 category in the United States. And overall, our 15 fund family is growing and off the back of very 16 strong performance, particularly in our equity 17 strategies. 18 So, we are very proud of that fact. And 19 proud that, you know, we can say there is 20 another big fund family here in town rather than 21 Vanguard way out in Valley Forge. Other point 22 is that we are the world's largest 23 infrastructure manager. That gets the point, if 24 you go to page number eight, we are running</p>	<p style="text-align: right;">Page 52</p> <p>1 are taking with mandate because we really do 2 manage our capacity. We want to make sure we 3 are managing our performance for our existing 4 clients. It's very important to us. We have 5 done that in a number of areas. 6 Key point there is, you will be 7 important part of our client base. And 8 particularly given you are here in Philadelphia, 9 we are big enough to compete with the big 10 players. We are not so big that we lose track 11 of our clients and really focus on what's 12 important which is performance. 13 And on the last page here on page 8, and 14 I am very passionate about this, is our 15 commitment to Philly. You know, I moved here 16 from Boston -- sorry about that -- but moved 17 here a couple of years ago after a long stint 18 overseas. And I really made this my home. One 19 of the key things we wanted to ensure is that we 20 are making a big impact on the community. And 21 from our standpoint, Delaware Investments was a 22 firm that's been here since 1929 when we didn't 23 really connect with the community and give back 24 to the community in a way that I thought we</p>
<p style="text-align: right;">Page 51</p> <p>1 currently almost \$140 billion in infrastructure. 2 We are the experts in infrastructure. We 3 basically created the asset class. 4 We just finished and reopened the 5 Goethals Bridge in between here and New York. 6 We actually oversaw the construction and 7 development of that, and running that for the 8 city. We own half of Teterboro Airport. We own 9 a lot of other utility and other assets around 10 the United States. And really trying to partner 11 with communities and municipalities. And figure 12 out how we can do things in a smarter way here 13 in the US as well as overseas. That is a big 14 emphasis in addition to the traditional equities 15 and fixed income that's been our expertise for, 16 you know, over 80 years. 17 On the equity side, we are running 18 95 million in assets under management. It means 19 that we are a top manager, but we are not too 20 big. This is something very important for us. 21 We really do manager our capacity carefully and 22 the number of client relationships we have, 23 particular with Frank's strategy it's important. 24 We are closing down the number of new money we</p>	<p style="text-align: right;">Page 53</p> <p>1 needed to. 2 As you see, in terms of investing in our 3 community, we really stepped it up in terms of 4 our engagement with charities here. We are the 5 number one sponsor for the Police Athletic 6 League, PAL. Also number one sponsor for Girls 7 Inc. Now we just raised \$140,000 for them 8 within an event we did last month. We now come 9 in almost over ten years, \$2.1 million to 10 charities around the city. Also, a big sponsor 11 of Settlement Music School as well now with the 12 Quakers and Girls Inc organizations. 13 As part of that, we also recently 14 announced we are the prime sponsor on the 15 Palestra, the basketball court over at UPenn, 16 which gives us not only an opportunity to 17 increase or visibility in the community, but 18 also ties us into three charitable organizations 19 that is part of Penn, especially girls' and 20 women's charity there that will be connected and 21 be able to do events with them. 22 In terms of being a prominent employer, 23 we are one of the city's larger employers in 24 terms of number of employees. Also important is</p>

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<p>1 faculty just announced we are moving our 2 corporate headquarters, staying in the City of 3 Philadelphia. We have been at 21st and Market 4 since 1987. We are moving to 6th and Market. 5 We are going to be right on Independence Plaza. 6 We are taking over the Dow Building. We are 7 making that our global headquarters. The 8 Macquarie name will be on the top of the 9 building. And we are going to continue to 10 expand here in Philadelphia. We think it's a 11 great place for talent, and particularly for 12 young talent, that we are bringing into the 13 organization.</p> <p>14 And then finally, from a diversity 15 inclusion perspective, we are doing a number of 16 things in addition to the charitable work. We 17 have been a prime sponsor now for the women's PA 18 Conference. We have 60 employees attend that 19 conference just a few weeks ago. We also got 20 very involved in the Chamber of Commerce and 21 also sponsoring diversity and inclusion events 22 for the Chamber of Commerce. And John Fry, who 23 is actually on our mutual fund board. He is on 24 the Delaware mutual fund board, he and I been</p>	<p>1 over time. We have gotten to it before. It was 2 found out. We go to it before it was resurged. 3 We invested in it at the beginning of its 4 product cycle. And we grow with it over time 5 until it becomes a large-cap company.</p> <p>6 We are fortunate the small-cap space has 7 a tremendous amount of inefficiencies in it. 8 And then the question just becomes how one 9 exploits the inefficiencies. For us, how we 10 exploit the inefficiencies is through the 11 combination of fundamental research conducted by 12 the five-member team I will introduce you to in 13 a moment along with quantitative techniques on 14 the front end, which help us screen the universe 15 down to an acceptable number of names to be able 16 to analyze. And on the back end, to get a feel 17 for and understand the risk that's inherent in 18 the portfolio. So, we want to make sure that 19 there are no unintended consequences from 20 the risk point of view within our portfolio.</p> <p>21 You know, the benefits for those that 22 are invested with us are listed in bottom of the 23 page. We are very disciplined in how we manage 24 our client's capital. That's enabled us to</p>
<p>Page 55</p> <p>1 partnering on a number of other initiatives to 2 make sure we are fully engaging with the Chamber 3 of Commerce and with the city.</p> <p>4 Key point is, this is our home. We know 5 this is your home. We want to make sure we do a 6 great job for the City of Philadelphia, for 7 Philadelphia Gas Works. And we will treat this 8 mandate with a lot of the care if we are chosen.</p> <p>9 MR. MORRIS: Thank you, Shawn. I will 10 take over from there.</p> <p>11 Pleasure to be here. Thank you for 12 inviting us. I am going to talk a little bit 13 about the small-cap core product philosophy, our 14 process, our people and close a little bit about 15 how our performance has been.</p> <p>16 I'm on page 11 behind tab two. You 17 know, our philosophy like that, the entire firm 18 is that we believe in active management. And 19 you know, we believe the markets are inherently 20 inefficient. And that we find no greater 21 inefficiency than those that exist in small-cap 22 space. And I always say, if we are doing our 23 job correctly, we are finding a 300/400/500 24 million-market cap company and growing with it</p>	<p>Page 57</p> <p>1 generate good returns. Skip has pointed out, we 2 go up and down markets. We have had a very 3 stable team of applying consistent process over 4 the number of years. We are very consistent in 5 terms of our positioning within the small-cap 6 core space. And finally, the hallmark of what 7 we do is to generate a very high risk adjustment 8 return.</p> <p>9 Now, those are nice statements for me to 10 put on the bottom of the page. Let me prove 11 them up for you on the next several pages.</p> <p>12 If you turn to page 12, this is a style 13 consistency chart, you know. And it shows where 14 we've been positioned slightly over 18 years. 15 We've been managing this portfolio slightly over 16 18 years. What I always say about our portfolio 17 is, you can draw a nice circle around us and the 18 Russell 2000, and we will always be within that 19 circle. Sometimes a little bit on the value 20 side, sometimes on the growth side depending on 21 where our research is taking us, but never far 22 enough to be something not supposed to be. 23 Never a small value fund when that is involved. 24 Never a mid cap growth fund when that's</p>

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<p>1 involved. We recognize that when you hire us to 2 be a small-cap cor manager, that's what you 3 expect us to be. You can have a high comfort 4 level, we will always be in that small-cap core 5 space. 6 The team is on the bottom of the page. 7 The page is on 13. First thing I always say, I 8 apologize for using my high school picture in 9 there. And I also then say right after that, 10 that Mike Morris is not related to Frank Morris. 11 So just FYI, there is no nepotism. 12 The three things I can say really about 13 the team are, a lot of experience. Twenty-nine 14 years in the business, seventeen with the firm. 15 Why is that important? Well, we've all seen 16 business cycles. We've all seen more than one 17 business cycle. We've grown up following the 18 sectors that are listed underneath our names. 19 And in many cases, our very well known within 20 those sectors and by those companies. And that 21 gets to us see the right people, to ask the 22 right questions, to ascertain whether a 23 particular equity is a good investment for our 24 portfolio.</p>	<p>1 incentive compensation is deferred. And is 2 deferred into our own portfolio. We are firm 3 believers in eating our own cooking. I don't 4 ask anybody on the team how they invested time 5 and money. But it's safe to say they told me, 6 we are all invested in all three trenches here. 7 So, a significant portion of our net worth is 8 invested in the success of this strategy. We 9 want it to be most closely aligned with those 10 that are invested with us. 11 So, experienced owners and aligned with 12 our investors. 13 On page 14 and 15 shows you a little bit 14 about our returns and the consistency of our 15 returns. And so on page 14, you will see this 16 is rolling one year quarterlies. And measured 17 this way, we have outperformed 83 percent of the 18 time. We are very consistent in how we generate 19 our returns. That roles up to what you see on 20 the bottom of the page, the classic chart that 21 you see that we have nice upside capture, really 22 good downside protection for what's been an 23 18-plus year close to 11 percent annualized 24 return, 260 basis points better than that of the</p>
<p>Page 59</p> <p>1 Second thing is, that we are structured. 2 We are owners of the process. And so Macquarie 3 is structured in a multi-group fashion. We run 4 our business and manage our P&L. That's 5 important to you from the standpoint of we 6 control our resources. We travel where we need 7 to go to generate output for this portfolio. 8 No offense to Shawn, but when we run a 9 research trip, we don't have to run it up the 10 flag pole and say, Shawn, can we go here. We 11 merely justify it to ourselves. And what we say 12 to ourselves is simply, go to the meeting, come 13 back to our investment meetings and tell us what 14 you learned, who you saw and why it was 15 important to the portfolio, and are there any 16 actions that we need to take as a result of that 17 meeting. So, a good part of our alpha is 18 generated but us controlling our own resources. 19 Finally, we are aligned with you. And 20 so by design, we are all invested in the 21 portfolio. So, we are invested in a variety of 22 ways. Either through a direct investment in the 23 mutual fund, the portfolio is also in the firms 24 401(k) lineup. And then a portion of our</p>	<p>Page 61</p> <p>1 index. This is attribute to the research we 2 conduct, the construction of the portfolio, and 3 the adherence risk within the portfolio that has 4 allowed us to generate these type of returns you 5 see on this page. 6 And then finally, the hallmark of what 7 we do is on page 16 and 17. Here we show you 8 our risk adjustment returns. We show you since 9 inception to drive home the point that no one 10 period is driving these returns. This is what 11 we come in every day to do. Pick good stocks, 12 generate really good alpha for our clients. Do 13 it while taking a lot lower risk than on our 14 peers. For what is purely information ratio and 15 one which approaches one over a longer period of 16 time. This is the hallmark of what is behind 17 everything that we are doing with respect to the 18 small-cap core portfolio. 19 Now, a little bit about our process. 20 Can I take you to page 21 right behind Tab 3. 21 This is a 30,000 overview of our process. We 22 start the morning, every morning, with a screen 23 of the Russell 2000. And we are screening for 24 three criterias: Valuation, expectation with</p>

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<p>1 Russell growth and quality. Statistical quality 2 on how management has invested capital in the 3 business. Think of this upfront screen as 4 identifying good companies with good business 5 models that are relatively inexpensive. This 6 helps us take 2000 stock universe and get it 7 down to 750 names for us then to do step two, 8 fundamental research.</p> <p>9 And on the fundamental research, what 10 the five of us are doing is we are actively 11 analyzing the company's balance sheet, cash 12 flow, earning stream. We are actively seeing 13 the company's to important part of what we do is 14 to see the companies that we are invested in. 15 And to that end, I always say by virtue of the 16 firm's asset size, 250 billion we get a seat at 17 the table. By virtue of our experience level, 18 we have a seat at the table. By virtue of 19 managing our business, we get a seat at the 20 table.</p> <p>21 And those meetings are important. They 22 are important to the management because they get 23 to tell their stories to us. We are asking them 24 about, tell us your business stream. Let's talk</p>	<p>1 Think of energy right now. The price of 2 crude is corrected sharply, the equities are 3 corrected sharply. If you have a massively 4 overweight energy, you would have significantly 5 underperformed and put your client in front of 6 that. It's not to say we won't underperform in 7 that sector, which is incumbent upon us to pick 8 the best stocks in that area. But we are not so 9 overweight that we lose total control of 10 performance of the portfolio.</p> <p>11 So, we are plus or minus 2 not wanting a 12 huge stock collection. We do the exact same 13 thing on factor analysis to make sure that you 14 get a broad distribution of small-cap 15 investment. This is end-to-end small-cap 16 investment. Lowest market caps in Russell 2000, 17 highest market caps. Lowest beta, highest beta. 18 That's important from and the standpoint of, you 19 know, market rapidly rotates. You will have 20 positions within each one of those particular 21 segments of the market. My worst client meeting 22 is always to come in and say -- my worst client 23 to come in and say, hey, we were naked one 24 segment. That would have meant we didn't do our</p>
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<p>1 about what you see for the future of your 2 business and your sector. Let's talk about your 3 corporate governance structure. And let's make 4 sure that we are in alignment as to how you are 5 managing your business, so that's the best 6 possible investment for you and our portfolio. 7 And then finally, we are all about asking 8 ourselves what is the catalyst that we value 9 shares of higher fundamentally. We are 10 fortunate again. Small-cap investing, no short 11 catalyst.</p> <p>12 One and two for us are about research. 13 Three is about portfolio construction. On the 14 portfolio construction side, we are all about is 15 allowing our stock selection to drop to the 16 bottom line. What I always say is, we are not 17 wild, crazy, sexy, overweight, underweight with 18 respect to sectors. In fact, we are plus or 19 minus 2 percent around sectors. What we have 20 been able to demonstrate over time is that you 21 can generate nice alpha for your clients by just 22 picking good stocks. And what we do not want to 23 have happen is a misplaced sector call deluding 24 our good stock selection.</p>	<p>1 risk adherence right. And so, we benefit from 2 being broadly diversified.</p> <p>3 Finally, how do we sell stocks? We sell 4 stocks like everybody else. We had success. We 5 pat ourselves on the back. We do a little 6 dance. We can't raise the price target, time to 7 move on. I also give the team extremely high 8 marks when we sell a name, when the thesis 9 breaks down. You are never right a hundred 10 percent of the time. If we are right a hundred 11 percent of the time, we would own an island and 12 we'd retire. You can save your clients a lot of 13 underperformance by exiting when the thesis is 14 different, when it's changed.</p> <p>15 We are always fully invested. Cash is 16 less than 5 percent at all times. It's a better 17 opportunities portfolio. And finally, we are 18 true small-cap portfolio. What I mean by that 19 is, if a name grows up and graduates to become a 20 large cap name, we will exit that name out of 21 the portfolio and start the process all over 22 again. What I always say is, you won't see 23 Apple in our portfolio saying it still has value 24 offset by give the other small-cap technology</p>

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<p>1 companies who maintain our small-cap stripes. 2 This is true small-cap, true broad-based, 3 small-cap investment. 4 That's a 30,000 foot overview. The 5 proof is always in the pudding. If I can take 6 you back to page 18 you'll see the performance 7 numbers. And what you will see in the 8 performance numbers, which I always say, blue 9 bars are higher than the gray bars, and that's 10 good for us and it's good for our clients. 11 We've been very consistent in that regard in 12 terms of generating alpha for our clients over a 13 number of years. 14 As you can see here, a quick thought 15 about what's transpired here in the most recent 16 correction. True to what I told you earlier 17 about preserving capital on the downside, we 18 have widened this gap between us and the Russell 19 2000. And so the market as corrected, you know, 20 at the time we were 135 basis points ahead of 21 the index. We are now 165 basis points ahead of 22 the index. We have widened the gap by 23 preserving capital on the downside. 24 Those returns, as I said, come from</p>	<p>1 committed to the city. And we want to give you 2 access to all of our resources and not just 3 small-cap core. Thanks again. 4 MR. MORRIS: First and foremost, 5 small-cap core. 6 MR. DiFUSCO: I have questions. 7 Rasheia had mentioned you guys are -- 8 you folks are doing some business with her 9 office in terms of managing some short-duration 10 assets. Over time, there has been some limited 11 discussion with the Muni plan and you mentioned 12 infrastructure earlier. As it relates to your 13 fee proposal, how open are you treating, you 14 know, money whether it's from the Treasurer's 15 Office, whether it's from the City Pension Fund, 16 whether from this fund as not commingling it but 17 in terms of fee rates or free proposal 18 considering that's all City money? We have had 19 other managers do that back at break points and 20 things faster. 21 And so, I am wondering if you folks are 22 open to those sorts of discussion? 23 MR. LYTLE: We are still under contract 24 terms in the Treasurer's Office, and trying to</p>
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<p>1 stock selection. And that should be everything 2 we talk about, stock selection driving our 3 return. 4 So, let me stop there and sum up by 5 saying good philosophy, very strong philosophy, 6 really strong people, very transparent process 7 that's been able to generate really good returns 8 while taking a lot lower risk. Okay. We are 9 going to stop there and pass it over to Skip. 10 But before Skip goes, I want to thank you for 11 your time. And say that, we really -- would be 12 an honor for us to manage this portion of your 13 assets. And so, pleased that you brought us in 14 to talk to you today. 15 Skip. 16 MR. CORKRAN: That's the bulk of our 17 presentation. I just want to close by saying 18 that the three things that make us feel really 19 good about Frank's team are hear on page 19. 20 And that is the experience that this team has 21 under its hood, been consistent results they 22 produce in both up and down markets. And the 23 fact they are part of the Macquarie team and 24 Macquarie is different in that we are highly</p>	<p>1 determine that. Happy to have an open 2 discussion about how we can think about this as 3 a broad kind of City-driven mandate. 4 MR. DiFUSCO: Yeah. 5 MR. LYTLE: And what that means. 6 MR. DiFUSCO: Yeah. 7 MR. LYTLE: Between the different 8 strategies. From my standpoint, we see this as 9 managing -- having a relationship with the City. 10 We have to figure that out between fixed income 11 side versus the equity side. We can do that. 12 MR. DiFUSCO: Thank you. 13 MR. LYTLE: Sure. 14 CHAIRMAN SCOTT: Thank you. 15 MS. JOHNSON: Thank you. 16 (Macquarie presentation ends.) 17 - - - 18 (Matarin Capital Reps brought in.) 19 MR. DiFUSCO: Thank you for coming in. 20 We appreciate it. You have met everyone. The 21 three Commissioners are your primary audience 22 today along with PFM and myself. If you can 23 take about 20, 25 minutes, I will kind of give 24 you the five-minute warning. Really talk about</p>

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<p>1 the process, the strategy, how you can add 2 outlook to the portfolio. And we will 3 definitely have questions for you along the way. 4 Thank you again for coming in. 5 MS. COTTON: I'm Marta Cotton. Good 6 morning. Principal at Matarin. I'm Director of 7 Client Development. And joining me Nili 8 Gilbert, one of our partners who is Matarin 9 cofounder. Nili is one of Matarin's cofounders 10 and portfolio managers, as well. And nice to 11 have a sunny day in Philadelphia. I always 12 enjoy coming back here. My husband was born 13 here. And in fact my mother-in-law, I don't 14 know if I can point the right direction, she was 15 born and raised 18th between Walnut and 16 Chestnut. And she used to tell me stories about 17 roller skating in Rittenhouse Square, I 18 remember. So, it's nice to be here. 19 And about Matarin, we are an 20 eight-year-old firm. We have an investment team 21 that's also worked together for a number of 22 years even before starting Matarin. 23 If you turn to page 2 in the book, looks 24 like some of you got there already, you can see</p>	<p>1 siloed. There is no one group that is 2 responsible for the entire client's investment 3 experience. And we felt it important to be able 4 to manage all those elements of a client's 5 investment experience and make sure that we are 6 not going to be a firm that's focused on its own 7 pocketbook ahead of the interest of pensioners 8 who put their trust in a firm. And we really 9 wanted Matarin to be different in that fashion. 10 We have some core tenets or principles 11 at Matarin. We will only offer strategies that 12 can deliver a value for clients net of fees. We 13 will close stratagems, this is really important, 14 and add levels before transaction costs erode or 15 turns our client. It's very important to us. 16 We won't use soft dollars because that tends to 17 lead clients to pay more. 18 These elements are driving principles 19 for us. We are very proud at Matarin that we 20 really believe we have got a firm that we built 21 over those almost eight years now that have 22 succeeded in putting its client's interest 23 first. 24 If you flip over to page 3, see a little</p>
<p>Page 71</p> <p>1 a picture of our team. We are a hundred percent 2 employee-owned firm, a through investment 3 boutique, as well. Five of us are equity 4 owners. So, ownership is already broad, and we 5 intend to broaden it further over time. And as 6 you can see today and in the photo, we are a 7 diverse firm and we are a certified women-owned 8 firm. 9 We also believe in diversity broadly. 10 We believe in it in race and in gender, but also 11 diversity in thought, diversity in opinion. And 12 we actually think that all that diversity 13 together is what helps make us good investors. 14 We all came from large firms. People 15 often ask us, why would you leave such firms, 16 you know, to start a firm like Matarin or join a 17 firm like Matarin from scratch. In hindsight, 18 it was probably a risky thing for so many of us 19 to do. But the fact is that we all really 20 wanted to work at a firm that we could really be 21 proud of and get excited to wake up every day 22 and represent and that truly put its clients 23 interest first above the firm's own interest. 24 And large firms, as you know, they can be a bit</p>	<p>Page 73</p> <p>1 bit in a picture about the kind of growth 2 trajectory we have. We started Matarin with our 3 own capital. And we seed its strategies with 4 our own money. In fact, this small-cap strategy 5 was started in January of 2011 with just one and 6 a half million dollars from the IRA of Valerie 7 Malter, our managing principal. And by the way, 8 the first time we ever submitted an RFP to the 9 City of Philadelphia, which was back in 2013, we 10 had firm assets of 160 million. At Matarin, 11 every year since inception, we've grown our 12 assets and our clients each year over the year 13 before, and we are proud of that. And in less 14 than eight years, as of the end of this third 15 quarter that just ended, we have firm assets of 16 \$1.6 billion from that standing start of \$1.5 17 million just from Valerie almost eight years 18 ago. 19 And the strategy we are talking about 20 today, the small-cap strategy has most of those 21 assets, 1.3 billion and 24 institutional 22 investments from clients, client accounts. And 23 our whole firm has about 32 institutional 24 clients in total. Most of them are in the</p>

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<p>1 strategy. And if we think about the makeup of 2 the client base that we have, we are very proud 3 we have a number of public plans as clients. In 4 fact, four of the five largest clients in our 5 strategy are large state public plans. And we 6 also have a number of city and county plans, as 7 well. So, we know what it's like to work with 8 clients similar to you. We know the kind of 9 environment, the transparency under which you 10 operate, the risk you take in hiring managers, 11 it's something we are very familiar with. 12 Our primary goal is to deliver above 13 benchmark risk adjusted returns. And we don't 14 want to be the kind of manager you see with 15 these high highs and these low lows that make 16 the client experience really painful. So, we 17 are quite focused on risk controls so we can 18 deliver the highest possible level of returns 19 while still managing the risk appropriately. 20 If you flip forward to page 14 and 15, 21 share a little bit with you about the kind of 22 performance we have had since inception. And 23 also, the performance relative to the almost 600 24 strategies in the whole Evestment small-cap</p>	<p>1 top 17 percent of all those 600 small-cap 2 strategies, beating 83 percent of them. 3 But I'd be remiss if I didn't mention 4 our most recent performance. You can see it has 5 not been as strong as the full since inception 6 seven and three-quarter year's track record. 7 And we all know that all managers have periods 8 of outperformance and periods of 9 underperformance. And we happen to have 10 experienced the latter more recently since the 11 first quarter of last year, but that follows a 12 period of five years where we had really strong 13 outperformance. So actually, we think it could 14 be a really interesting and good time to 15 potentially invest with Matarin. The 16 environments that have given us the headwinds 17 since last year, these our environments that do 18 tend to revert. 19 And we happen to have some new clients 20 that think so, too. Some investors have 21 recently given us some new mandates, which is 22 very exciting even following the period of 23 underperformance. Giving us their vote of 24 confidence. Three new clients just in the last</p>
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<p>1 universe, which is on the following page. We 2 are pleased we have done quite well for our 3 clients in the time we have been managing the 4 strategy. In the seven and three-quarter years 5 since inception, we outperformed the Russell 6 2000 index by an annualized 2.1 percent. And 7 that strong excess return performance ranks in 8 the top 22 percent. You can see some of those 9 rankings on the bar chart on the next page. 10 That means, we beat 78 percent of other 11 small-cap managers in delivering excess returns 12 over that time period since inception. But 13 really importantly, our risk adjusted returns 14 are worth mention. 15 We rank in the top 14 percent for 16 information ratio. That is important risk 17 adjusted returns. Which means we outperformed 18 80 percent of those other managers. We are 19 doing a good job in meeting investment 20 objectives for our clients. But I mentioned 21 risk controls and trying to keep those lows from 22 reading too low. You can see in the measure of 23 downside capture, that we outperformed in down 24 markets. So there importantly, we rank in the</p>	<p>1 few months. One of those is 125 million-dollar 2 mandate from LACERA, which is the \$56 billion 3 Los Angeles County Employees Require 4 Association. That was quite gratifying, as 5 well. 6 I will turn it over to Nili to share 7 with you a little bit more about our team's 8 background, how we manage portfolios and to put 9 that performance into context. 10 MS. GILBERT: Hi, everyone. As Marta 11 said, I'm a cofounder and portfolio manager of 12 Matarin. It's great to be here with you today. 13 Actually, the last time I was in Philly, I was 14 with our clients at the labor union in 15 Norristown just outside of the city. The local 16 union is a small-cap client of ours. And I had 17 a chance to go out and volunteer with their 18 union members for the day and their community. 19 Marta mentioned how important our clients are to 20 us. And for us, that means remembering the end 21 beneficiaries of our work whether it's union 22 members, city workers in addition to the 23 trustees and investment team members that we 24 have the chance to engage with.</p>

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<p style="text-align: right;">Page 78</p> <p>1 In any case, the origins of our 2 investment process at Matarin actually go all 3 the way back to 1980 at a firm called Chancellor 4 Capital Management, which was even before that 5 Citi Bank Asset Management. It's fund out of 6 Citibank. Part of why we believe in Matarin's 7 investment philosophy so strongly is because 8 it's actually been adding value for 9 institutional clients like yourselves for 10 over -- almost 40 years now. 11 My cofounder and fellow portfolio 12 managers Stuart Kaye joined that group in 1994. 13 And he was in the chief investment officer role 14 when he recruited me out of Columbia business 15 school in 2003 to join his team, and recruited 16 our fellow portfolio manager Ralph in 1999. 17 So, we have been working together managing 18 strategies similar to these for a very long 19 time. As a matter of fact, our group at 20 Chancellor, was ultimately inquired by Investo, 21 was managing over \$25 billion in assets at the 22 time that we all spun out to fund Matarin. It 23 was in 2010 when Stuart, our cofounder Valerie 24 and I started up the firm.</p>	<p style="text-align: right;">Page 80</p> <p>1 fear come into the market, for example, lately 2 or greed, sometimes investors egos come into 3 play or things happen that just cause them to 4 forget to stick to their knitting. When those 5 things start to happen, you can see stock prices 6 move pretty far away from what we would call 7 their long term fair value. 8 And so, what we do is we first start 9 with ideas that we hope are insightful and 10 creative about what will drive the stock's fair 11 values over to long run. And then we find ways 12 to quantify those insights so that we can 13 implement them in the stock market 14 systematically. And what being systematic 15 means, is that we are able to get our own 16 emotions and biases out of the way when we are 17 making these investment decisions so that when 18 the emotional dislocations happen, that we are 19 able to take the other side of those trades. 20 In fact, oftentimes we will be making 21 investment decisions that other investors might 22 find uncomfortable. So, we say we tend to be 23 contrarian in our style of investing at times. 24 We actually believe that it's kind of hard to</p>
<p style="text-align: right;">Page 79</p> <p>1 Our experience of working for very large 2 firms as Marta mentioned over time just gave us 3 the feeling that we could do better for our 4 clients at the end of the day. We had all been 5 portfolio managers. And we were proud of the 6 alpha, the returns that we were able to generate 7 for our clients. But we just felt like there is 8 so much more that matters for your well being 9 than just the returns. So, Marta mentioned the 10 type of policies that we have put in place to be 11 able to ensure and strengthen those outcomes. 12 So with that, let me just move into a 13 discussion of our investment philosophy and 14 process which, as I mentioned, does draw on 15 several decades of work. I am turning to page 4 16 in the book which describes our philosophy at a 17 high level. 18 Matarin's investment philosophy about 19 why we believe we can beat the markets as active 20 managers at all is essentially that we see the 21 stock markets as being inefficient in the 22 intermediate term. Actually, the thing that we 23 believe creates most of these inefficiencies is 24 investor's emotions. When you see things like</p>	<p style="text-align: right;">Page 81</p> <p>1 get paid in the markets for making the most 2 comfortable decisions. If it's something that 3 is really obvious or, you know, really easy to 4 do, it's probably already reflected in the 5 price. Other investors have already made the 6 comfortable decisions. It's hard to get paid 7 for them. 8 What this has meant for our clients' 9 portfolios over time is that we tend to offer a 10 differentiated pattern of returns, especially at 11 emotional turning points in the markets. I 12 always like it when Marta says that our 13 performance tends to zig when others zag. That 14 is really by design. 15 If you move forward two slides to page 16 6, here you will see a description of the types 17 of stocks we like to buy and hold in our 18 portfolio. In a nutshell, we want to be buying 19 good businesses that are trading at inexpensive 20 valuations or prices with shareholder friendly 21 leadership, that's our people concept. And then 22 finally, we want to see evidence of some 23 short-term catalyst for outperformance. 24 On the other hand, if a stock's business</p>

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<p>1 starts to deteriorate or if its price gets more 2 and more expensive as we are holding it, or if 3 the leadership starts making poor business 4 decisions or the short-term catalyst breakdown, 5 that is when we would make a decision to sell a 6 stock out of the portfolio that we have been 7 holding. 8 Since inception, all four of these 9 concepts have added value for our clients' 10 portfolios as we would hope. And another thing 11 that's interesting about the way that we think 12 about this design, is that all four of the 13 concepts don't always do well at the same time. 14 We are hoping if it's an environment that, say, 15 very good for business, that maybe there is 16 another concept that's less favor. But there is 17 always something in the portfolio helping to 18 support returns. 19 So for example, in the more recent 20 period 2017 and 2018, until this recent market 21 turn, one thing that we have seen is that very 22 high momentum stocks, think of your high flying 23 tech stocks or biotech stocks, have been very 24 well rewarded. And so, our catalyst concept</p>	<p>1 fundamentals matter a lot. 2 MR. DiFUSCO: Can I ask a quick question 3 on the valuations piece you mentioned? 4 MS. GILBERT: Yes. 5 MR. DiFUSCO: You talk about valuation, 6 looking for inexpensive. Are you talking about 7 compared to historical norms or compared to the 8 environment you are in where, hypothetically 9 say, everything in quotes is overvalued. And 10 so, you are looking for something cheaper 11 relative to what is going on at the moment. Are 12 you looking more at something cheaper relative 13 to historical norms? 14 MS. GILBERT: We are looking for stocks 15 that are cheap relative to their peers 16 currently. And when we think about valuation, 17 we really want to get a robust picture of how 18 stocks are being valued. So, we are looking at 19 how it's valued relative to peers in its 20 subindustry, relative to peers in its sector, 21 and then relative to the entire investable 22 universe for small-caps. This gives us a pretty 23 clear picture of the current valuation. 24 When we think about valuation over time,</p>
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<p>1 that focuses on the shorter term drivers of 2 performance has been the strongest performer in 3 the portfolio. But on the other hand, the 4 market has not been focusing on whether stocks 5 are trading at very high prices. So, expensive 6 stocks have also been very well rewarded. And 7 so, the price concept that focuses on valuation 8 has underperformed. And it's actually that 9 price concept that describes the negative 10 performance that you have seen in the portfolio 11 during those two years. 12 So, I also wanted to say about the 13 process, that it's really not one size fits all. 14 When it comes to individual names, we're really 15 thinking about what makes different types of 16 stocks trade differently. We wouldn't want to 17 forecast the price of a biotech stock that's 18 more speculative, thinking about its future 19 product its future business the same way we want 20 to forecast the price of a local utility. 21 For biotech stocks, it's actually the 22 price momentum that matters more and the current 23 business fundamentals that matter less. 24 Whereas, for utilities, the current business</p>	<p>1 we also do look at whether how value has been 2 performing recently. Because if you are in an 3 environment where currently, as I was saying, 4 expensive stocks have just been getting more and 5 more and more expensive, there comes a time when 6 that is going to stop. And it's actually 7 attractive to focus on valuation a lot more in 8 your process. But when we do that, we want to 9 adjust the amount of emphasis that we are 10 putting on valuation for all of the stocks in 11 the portfolio at once. 12 MR. DiFUSCO: Thank you. 13 MS. GILBERT: We'll just pause to see if 14 there are any other questions before I move off 15 of the discussion of how we pick stocks? 16 So in that case, I would like to talk 17 about how we put it all together. Moving to 18 slide nine, which is appropriately entitled 19 "Putting It All Together." 20 Once we have got returns forecast for 21 every stock in our investable universe and 22 because of how we systemized our thinking, we 23 are actually able to come up with fresh forecast 24 for every stock, over 1800 small-caps stocks</p>

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<p style="text-align: right;">Page 86</p> <p>1 every single day. So once we have got these 2 return forecasts, our portfolio construction 3 process wants to combine information about the 4 expected returns along with information about 5 the risks of the stocks, along with information 6 about how much it's going to cost to actually 7 trade. As Marta mentioned, risk management is a 8 very important part of our process. 9 Essentially, the way that we think about 10 it is in terms of what we call risk budget. 11 What we want to do when we are taking risk 12 relative to our benchmark, is to spend our risk 13 budget in the area where we think we have the 14 most skill. And for us, that is picking stocks. 15 So what that means is that we don't want to 16 spend our risk budget on taking big bets in 17 sectors as compared to the benchmark or big bets 18 about macroeconomic risks, like, we wouldn't 19 want to have a portfolio that has a lot of 20 interest rate sensitivity as compared to your 21 benchmark or oil price sensitivity. What we 22 really want to do is create a process that 23 allows us to focus just on our pure stock 24 picking ability alone.</p>	<p style="text-align: right;">Page 88</p> <p>1 hopefully, also going forward. 2 Any questions about the putting it all 3 together piece or anything else that I said 4 about the investment process? 5 If not, I will pass it on to Marta to 6 conclude. 7 MS. COTTON: Hopefully, we have been 8 able to share with you a little bit about how 9 this process comes together. It's this blend of 10 fundamental and quantitative. We think of it as 11 the best of both worlds, actually. It's how do 12 you take that best fundamental thinking that we 13 have, and we just happen to use these rigorous 14 and systematic tools to express the best and 15 fundamental thinking. And our edge is the way 16 in which we are able to put those together 17 successfully. 18 You have heard about the common sense 19 risk controls that we have that let's us focus 20 on the area that is our greatest area of skill, 21 which is that stock selection. The process is 22 disciplined. It's repeatable. It's added 23 significant value for clients. We believe in 24 putting our clients interests first. We believe</p>
<p style="text-align: right;">Page 87</p> <p>1 And then the third part, the transaction 2 cost forecasts are really important especially 3 in the small-cap space. Believe it or not, we 4 have seen some situations where managers have 5 spent 2 to 3 percent per year on trading costs 6 alone, and that comes directly out of the 7 returns that you are able to use to pay 8 benefits. So, we forecast how much is going to 9 cost to trade every stock, and won't make a 10 trade if the expected cost of the trade is more 11 than the expected return that we think we can 12 pick up from doing the trade. 13 We put all of these elements together 14 into what we call an optimizer, which is 15 basically just you can think of it, I do, as a 16 really big calculator that helps us to solve for 17 all of these problems at once. Even though we 18 love math at Matarin, it's more than we would be 19 able to keep track of in our heads. And at the 20 end of the day, what this results in is a 21 portfolio that tends to have about 170 stocks on 22 average, and is very diversified by sector. 23 This process, as we said, has led to 24 returns for our investors since inception. And</p>	<p style="text-align: right;">Page 89</p> <p>1 in fair and client-friendly fees. And again, 2 closing the strategy at an appropriate level 3 that's in the best interest of our clients, 4 something we feel extremely strongly about. 5 And we are actually not that far away, 6 as it turns out in terms of small-cap at this 7 point in time. So, our incentives are firmly 8 aligned with yours, as well. We believe in, you 9 know, eating our own cooking. And if you put 10 your trust in us, we will work very hard for 11 you. You will really get a true long-term 12 partner. And we commit to coming back whenever 13 you would like us to, to talk about the 14 portfolio. 15 We commit to open clear transparent 16 communication as well with PFM. And we would 17 really be honored to work in service of PGW and 18 the City if you would select us. 19 MR. DiFUSCO: I just had one additional 20 question. Commissioners may, as well. Did -- 21 you mentioned that the bulk of your assets are 22 in this strategy. I least one of you or both 23 said about 1.3 or 1.6. 24 MS. COTTON: Correct.</p>

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<p>1 MR. DiFUSCO: Do you consider that firm 2 risk or is there a concern about, you know, if 3 there is an issue with this particular strategy, 4 it causes stress on the entire firm? Are you 5 looking to, you know, expand capital in other 6 strategies? 7 If I'm not phrasing it right, hopefully 8 you -- 9 MS. COTTON: I know what you mean. 10 Sure, Chris. So briefly, the other strategies 11 just so you know what they are, we have a U.S. 12 large-cap strategy. That is actually done 13 exceptionally well versus a thousand strategies 14 out there. It's in the fifth percentile for 15 those risk adjusted returns that I mentioned. 16 And so, obviously, large cap has had some 17 headwinds. But we still are optimistic in 18 growing assets in that strategy. 19 We also have a micro cap strategy which 20 is very new, actually, which has seen new 21 investments in it just in the last few months. 22 We want to be prudent and thoughtful about the 23 kind of strategies that we do offer. We have 24 been approached, actually, to begin some very</p>	<p>1 of being 100 percent management owned. We are 2 not spending somebody else's money. And so, 3 that -- from a business perspective, that's how 4 we think about being able to stick it out for 5 the long run. 6 You may also be interested to hear that 7 when we founded the firm, we set a commitment to 8 hopefully build an entity that can last even 9 beyond its founder. We are thinking a great 10 deal about longevity at Matarin. 11 MR. AMMATURO: How much of that 1.6 12 billion is with emerging manager programs as 13 opposed to directly plan sponsored? 14 MS. COTTON: So, we feel very fortunate 15 to have a number of accounts, especially early 16 on, to come from those emerging manager 17 programs. We always say we really wouldn't be 18 here without them. They are very important. 19 Who is going to give you money at the 18-month 20 mark when you really don't have any. But in 21 addition to having grown with the benefit of 22 those programs, then as our track record got 23 long enough and our assets grew, we started 24 meeting the criteria for various RFPs and being</p>
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<p>1 strategies that we chose not to do because we 2 didn't think we could deliver them in the best 3 way for our clients. We talk all the time about 4 other strategies. We are working on some other 5 ideas potentially. It is something we will 6 always approach in a really thoughtful way. 7 MR. DiFUSCO: Thank you. 8 MS. COTTON: Just to add to your 9 question in terms of how we think about it in 10 terms of business risk. It's something we do 11 talk about. The way that we think about the 12 business risk, is we want to be able to manage 13 volatility whether in the markets or possibly, 14 hopefully, not in clients while keeping the -- 15 being able to always cover the firm's costs. 16 When it comes to business risks, one of 17 the things that you see too often is that firms 18 kind of scale up their costs as they grow and 19 the markets are rising or when their strategy is 20 in favor. And then when things go out of favor, 21 it's hard to continue to cover those costs. And 22 so, we have been so diligent in thinking about 23 how we manage our financing ever since we 24 founded the firm. I think it's also a byproduct</p>	<p>1 invited to finals and then winning some along 2 the way. 3 Eight of our last ten clients, new 4 clients, have been direct mandates such that the 5 overall split from the firm has really moved, 6 frankly, in a nice way for a firm like ours to 7 have in its life cycle development. That split 8 now is 70/30. Seventy percent is direct and 9 30 percent from those emerging manager programs. 10 MR. AMMATURO: Thanks. 11 CHAIRMAN SCOTT: Thank you. 12 MS. JOHNSON: Thank you. 13 (Matarin Firm presentation concludes.) 14 - - - 15 MR. GOLDSMITH: Well, you know, looking 16 at all that, I think there was some questions in 17 between Macquarie and Matarin. There was some 18 discussions about ownership I overheard a little 19 bit. You know, in looking at the data, 20 performance data we have in front of us, what we 21 just heard from all three managers and the fee 22 proposals they are in, I find it hard to make a 23 case against Copeland, especially you know, if 24 we are going down the road of, you know, one</p>

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<p>1 manager, one index. 2 You know, I think they -- we look at 3 firm characteristics, employee owned. And more 4 so than that, every member of the investment 5 team is an owner even, you know, their quant 6 analyst who is graduate from college in 2014. I 7 assume that some element of his compensation is 8 being awarded equity in the firm. The nature of 9 their, I guess -- the philosophy is reflected in 10 the nature of their performance in that they 11 have exhibited not just in what they showed 12 here, but in the book. If you flip ahead to 13 this page -- I don't think it's a page number on 14 it, but it's labeled Historical Statistics. 15 You know, it covers -- it features a 16 number of metrics that are all over their books. 17 Here is nice place where you can look at it all 18 at once. There is number of applicable 19 statistics on here. 20 MR. DiFUSCO: It's behind the PFM memo. 21 The last page or two of the -- 22 MR. GOLDSMITH: Right. Before the 23 Copeland -- start of the Copeland book. This is 24 all -- these are the composites of all the</p>	<p>1 always frequently, the lowest across all 2 periods. You know, these are things that point 3 to, I want to say, defensively minded but also 4 able to find that alpha in the small-cap 5 universe. I think that flushes with our 6 philosophy when it comes to total portfolio 7 construction. At the same time, they run the 8 most concentrated strategy within the lowest 9 turnover. You know, 40 holdings or so. You 10 know, 30 to 40 to 50 holdings at any various 11 times. That type of strategy would pair well 12 with an index. You have got your broad 13 benchmark exposure, then a much more 14 concentrated portfolio. 15 So again -- and then lastly, I will add 16 in the fees were significantly lower. I mean, 17 they are starting with the 20-plus basis point 18 head start. 19 CHAIRMAN SCOTT: So, their dividend 20 growth philosophy, is that unique? 21 MR. GOLDSMITH: Within these three 22 managers, I would say it certainly is. I don't 23 think it's unique to the overall universe of 24 investment managers. I don't want to call it a</p>
<p>Page 95</p> <p>1 managers over the same period. You know, all 2 ending September 30. You know, some 3 similarities. Think all managers probably noted 4 this, the last year and a half or last seven 5 quarters leading up to this point were not the 6 best environment for the types of strategies 7 they were running. You know that being said, 8 you know, across all the periods here and flips 9 on the ten years, well -- Copeland hasn't been 10 around for ten years, neither has Matarin. 11 But you know, downmarket capture, the 12 fourth column from the right. Copeland is very 13 consistently far below the other managers. It 14 tends to lag in the upmarket. All these things, 15 again, pair very closely with what they said in 16 their presentation. Alongside that, I think 17 they got the lowest correlations with the 18 benchmark. And the source of their -- if you 19 look over the alpha, it's non-benchmark 20 positions that are driving, you know, their 21 return. Not non-benchmark, but excess, you 22 know, alpha well above the other two managers. 23 At the same time, I think interesting to 24 note that their standard deviation is if not</p>	<p>Page 97</p> <p>1 sub-bucket like value or growth. I would call 2 it a philosophy that some managers have, you 3 know, chosen to make their prevailing strategy. 4 You know, we at PFM have utilized discretionary 5 accounts, dividend growth managers in the large 6 cap space. I think that's typically where it's 7 most prevalent. It's not entirely unique in the 8 small-cap space. 9 I think it requires, just like any 10 management small-cap or large-cap, it requires 11 more work to do. There are more names to cover. 12 They alluded to that in their presentation with 13 the numbers. 14 MR. AMMATURO: I think that's right. I 15 think you see much more large-cap dividend 16 paying managers out there. You would think a 17 smaller size company needs to reinvest back in 18 the business to make the business sustainable 19 where it can grow and to be a mid-cap company, 20 et cetera. 21 I wouldn't say it's 100 percent unique. 22 But you want to see more dividend, high dividend 23 stretch in the large-cap space than small-cap. 24 CHAIRMAN SCOTT: The concept, I think,</p>

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<p style="text-align: right;">Page 98</p> <p>1 Copeland was also employee owned; is that 2 correct? 3 MR. GOLDSMITH: Yeah. 4 CHAIRMAN SCOTT: How do you evaluate the 5 risk of that type of ownership versus that -- 6 the larger firm we interview? 7 MR. GOLDSMITH: I think the risk to 8 employee-owned firms, you know, broadly 9 speaking, could be key man risk where one person 10 owns the majority of the equity or the process 11 is overly rely on that one person. We don't 12 have those issues with either of these 13 employee-owned firms. 14 You know, the bigger risk I think would 15 be that of acquisition, which is not always a 16 negative risk necessarily. But things can 17 change. We heard, I think, Matarin talk about, 18 you know, I think they all sort of moved away 19 from those types of firms to specifically run 20 the strategy and run the firm they way that they 21 wanted to. I don't want to say the would go and 22 sell to a large financial conglomerate. But you 23 know, the performance is strong. Anything can 24 happen in the investment management phase.</p>	<p style="text-align: right;">Page 100</p> <p>1 said -- 2 MS. JOHNSON: I was just looking at for 3 those small-cap space, had three firms here 4 today at three varying sizes. And I guess from 5 your -- I just want to hear from your 6 perspective kind of the -- not saying which one 7 of these firms you think, but kind of just 8 upsides do you need a large Delaware Macquarie 9 firm to be successful in this space? Or do, you 10 know -- or a Copeland which is very different 11 from Matarin firm. 12 So, just kind of want to get your 13 perspective of that because these are three 14 various sizes of firms. 15 CHAIRMAN SCOTT: Let me ask. 16 MR. AMMATURO: That's a good question. 17 CHAIRMAN SCOTT: One was 1.3 billion, 18 another was 3 billion and another one was what, 19 150? 20 MR. GOLDSMITH: So 1.6, 3 and several 21 hundreds. 22 MS. JOHNSON: When it comes to equities 23 probably -- 24 MR. GOLDSMITH: 90 billion maybe in</p>
<p style="text-align: right;">Page 99</p> <p>1 A change to culture could occur in that 2 instance. Again, this is purely hypothetical. 3 These are things that just my happen. 4 MR. AMMATURO: It's a net positive. We 5 look for employee-owned firms. We look for 6 portfolio managers, employee management 7 ownership take in the firm. Interests are 8 aligned with your interests. And that's one of 9 the things we look for. 10 MR. GOLDSMITH: You know, on the 11 flipside, Macquarie, they are certainly 12 performance-based salary compensation schedule, 13 you heard them. They also -- when -- we have 14 our own P&L for just this strategy. That is a 15 little interesting to hear. You don't always 16 hear that with the large firms. 17 I think they take -- his success in 18 Macquarie is relying on the profitability of 19 that strategy. One that comes from performance 20 but also, you know, keeping expenses I think. I 21 thought it was interesting. But certainly, 22 that's an Australian-owned large, large firm in 23 the long run. 24 CHAIRMAN SCOTT: Understood what you</p>	<p style="text-align: right;">Page 101</p> <p>1 equities Macquarie. 2 MR. DiFUSCO: Yeah, that's right. 3 MR. AMMATURO: I think there's been 4 proof statements out there that the emerging 5 firms have been able to outperform the 6 mainstream managers. That's not across the 7 board, obviously. But there is proof statements 8 out there that small boutiques have been able to 9 add incremental return. 10 I don't think you're dealing with 11 emerging firms here that are like 500 million, 12 600 million that are really business risk. I 13 don't think PGW is entering down the roads of 14 business risk by investing with one of these 15 boutiques. I think especially Copeland is past 16 that hurdle of \$3 million. 17 So, you -- I don't think you can really 18 go wrong. Because I think either shop in terms 19 of the first two managers, to your point 20 Rasheia, can't get much different. You are 21 going from a boutique lean organization to a top 22 hundred global manager. So at the end of the 23 day, the performance is right on top of each 24 other.</p>

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<p>1 MS. JOHNSON: Right. Their returns each 2 year over year. 3 MR. AMMATURO: Is fairly consistent. 4 It's more your appetite for that boutique lean 5 organization or the multinational top 50 asset 6 manager. Kind of what are you more comfortable 7 with as a commission. We at PFM favor the 8 boutique that is employee-owned that has skin in 9 the game. But we presented all these firms 10 because we are comfortable with all of them. 11 MS. JOHNSON: Fair enough. 12 MR. WHITE: Boutique sells 55 13 significantly cheaper fee. 14 MR. DiFUSCO: Right. 15 MR. GOLDSMITH: What's shown here, take 16 away 20 basis points from the other two. These 17 are growths. 18 MR. AMMATURO: That's a good point. If 19 they are right on top of each other, that means 20 Copeland outperformed by 25 basis points. 21 MR. GOLDSMITH: Like 57 I think. 22 MR. DiFUSCO: Yeah. I approximated 23 because it depends on the exact break. 24 CHAIRMAN SCOTT: So, the firm that --</p>	<p>1 something differently. So, we went up for RFP. 2 And we retained most if not all of our managers, 3 but then added additional four or five. 4 Everyone is not going to get money from the 5 offset, but we negotiated with them. 6 They came up with their best and final 7 offer. We'd like to contract with you, but can 8 you move here, there. They agreed. Now it's 9 with the Law Department and their compliance and 10 kind of going back and forth. But the fees are 11 solid. 12 CHAIRMAN SCOTT: Okay. Copeland 13 relative to their diversity philosophy, how -- I 14 can't recall. 15 MR. GOLDSMITH: Here are the numbers. I 16 don't know if there was an explicit diversity 17 philosophy. We talking diversity of employees 18 or diversification -- 19 CHAIRMAN SCOTT: Yeah, employees. 20 MS. JOHNSON: Employees. 21 MR. DiFUSCO: A quarter of investment 22 professionals are minority, 18 percent of the 23 executives in C-suite positions are female or 24 minority. And employees as a whole, 22 percent</p>
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<p>1 the City of Philadelphia is looking at one of 2 these firms or has a relationship with one of 3 them? 4 MS. JOHNSON: We are contracting with 5 Delaware Investments, Macquarie or whatever they 6 are calling themselves. 7 CHAIRMAN SCOTT: The question that 8 Christopher asked relative to the 9 competitiveness of their fees, is it -- that's 10 still in the discussion phase in terms of their 11 fee structure? Or is that etched? 12 MS. JOHNSON: Our fee structure with 13 them is etched. And either they're going to 14 sign it or they are not. Everything is 15 negotiable. 16 MR. DiFUSCO: I like how you negotiate. 17 Sign it or leave. 18 MS. JOHNSON: We gave them best and 19 final, and then I followed up. Because on our 20 investment manager side, we had very small edge. 21 We had about \$3 billion in assets for the City 22 that we have with managers. Again, very short 23 term. But I think we had about five active 24 managers. And we had no -- we wanted to do</p>	<p>1 each female minority, 11 percent ownership by 2 female minority. Numbers, I would say, slightly 3 higher depending on how you would break it down 4 for Delaware. Although, I don't know if it's 5 leaps and bounds of -- and then Matarin, 6 obviously, is smaller. Shop only total 7 employees. But over half women. And of the 8 five women, two are Hispanic, one is 9 African-American. The Hispanic women are both 10 considered executive or C-Suite. Then 11 African-American you know, is pretty much 12 running strategy on the investment team. 13 CHAIRMAN SCOTT: PFM, you guys are 14 recommending Copeland? 15 MR. GOLDSMITH: I think, like I we said, 16 we came in today with -- standing behind all 17 these managers. When you look at purely -- you 18 heard the stories of philosophies. You know, 19 regardless of whether you favor one or the 20 other, assuming you stand behind all of those 21 roughly equally, you look at historical 22 performance in certain market periods. 23 I think Copeland stands out just based 24 on purity to some extent. Even you can see that</p>

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<p>1 all managers performed generally well. I think 2 when you apply the fees, it makes it a clear 3 decisions -- well, a clearer decision I would 4 say. 5 MR. AMMATURO: Macquarie, they would be 6 willing to talk fees with you, did they not 7 Chris at the end? You asked point blank. Said, 8 we are willing to talk. Not sure how much 9 wiggle room there is. 10 MR. DiFUSCO: Yeah. They would -- I 11 guess my -- would they come down 30 basis points 12 maybe, I think that's unlikely. We were talking 13 10 basis points maybe, I think they would talk. 14 I don't know that I, based on my experience in 15 past negotiations, not with them but with other 16 firms, they don't come down. 17 MR. GOLDSMITH: I think Copeland had 18 lower fees, I think from the start, as well, 19 even what was proposed in RFP. Their business 20 model or whatever they are willing to have, and 21 their margins in general I think are lower. 22 MR. AMMATURO: That's the benefit of 23 being a smaller employee-owned shop. There is 24 more infrastructure, more red tape obviously at</p>	<p>1 MR. AMMATURO: I'll be very brief. It's 2 2.1 of the page. It's labeled September 30, 3 2018 Total Fund Market Value, 550,636,304. 4 Again, this is as of September 30. We all know, 5 again, market sold off posts September 30. But 6 through the first nine months in the calendar 7 year, your portfolio was performing very well. 8 On absolute basis, up 4.73 and on a relative 9 basis. If you look at it verse the benchmark, 10 benchmark is only 3.52. 11 What is driving that? Outperformance on 12 a relative basis is two things. One, they are 13 overweight to equity markets. And again, 14 through the first nine months of the year, the 15 equity markets are very strong. And you will 16 see active managers have really done well in 17 this portfolio. You have two things kind of 18 adding to your incremental return over the 19 benchmark. 20 Within large-cap, a lot of the assets 21 are indexed, if you look at Rhumblin and 22 Northern Trust, that is really 3 percent of your 23 assets. So 33 out of 40 -- I'm sorry, 28 out 24 of 40 is passively managed. And then you have</p>
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<p>1 Macquarie relative to Copeland. 2 CHAIRMAN SCOTT: Yes. Is the 3 committee -- I mean, Commissioners are you guys 4 ready to vote? 5 Does anyone want to make a 6 recommendation? I know I am prepared to make 7 one. 8 MR. WHITE: Based on fees. 9 CHAIRMAN SCOTT: It look likes we are 10 leaning in the direction of Copeland. 11 Is there a motion? 12 MR. WHITE: Motion to recommend or to 13 the recommendation of Copeland. 14 MS. JOHNSON: Second. 15 CHAIRMAN SCOTT: Motion has been made 16 and properly seconded that we go with Copeland. 17 All those in favor? 18 (Ayes.) 19 CHAIRMAN SCOTT: Ayes have it. 20 Now, one other thing that we need to do 21 here. 22 MR. DiFUSCO: Well, Marc, will briefly 23 cover the investment performance and then we 24 have one other brief item.</p>	<p>1 PineBridge, a recent addition at the end of last 2 year. 3 PineBridge just got started in November 4 of last year. If you look all the way to the 5 far right, and they are up 11 percent in this 6 calendar year, slightly outperforming. That's 7 10 percent of your assets. Good start by 8 PineBridge. 9 On the small-cap side, this is where we 10 spent our morning discussing who is going to 11 potentially replace Vaughan Nelson and Eagle. 12 If you look at the compositive level, combined 13 small-cap year to date column, 14.8 vs 11.5. 14 Good outperformance for your active managers of 15 small-cap this calendar year. 16 On the international side, again, I 17 wouldn't focus on the year-to-date column and 18 the combined equity. Negative 1.8 verse a 19 negative 3. So international has not been the 20 place to be this calendar year. But on a 21 relative basis, your manager has minimized 22 losses. That's what you want, right, from your 23 active managers. Negative 1.8 versus benchmark 24 that's negative 3 for the first nine months of</p>

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<p>1 the year.</p> <p>2 You have one index fund there. You see</p> <p>3 Rhumblin, which just got hired mid 2017. And</p> <p>4 you have three active managers, which are in the</p> <p>5 process of 16 getting replaced, as well:</p> <p>6 Mondrairie, Harding and DFA. But again in the</p> <p>7 aggregate preservation of capital at the</p> <p>8 international equity level, which is good to see</p> <p>9 in this turbulent market.</p> <p>10 On the fixed income side on the</p> <p>11 subsequent page, again, similar theme. It's</p> <p>12 been a tough year even with the bond market.</p> <p>13 Bond market is down negative 1.6 for the first</p> <p>14 nine months of the year. If you look at the</p> <p>15 Barclay's aggregate, your managers on a</p> <p>16 consolidated basis are negative. But again, not</p> <p>17 as far down as the benchmark. Negative 0.74,</p> <p>18 which again is good to see.</p> <p>19 You have six active managers. And they</p> <p>20 all outperformed five of the six -- five of the</p> <p>21 top five outperformed. SKY Harbor, the bottom</p> <p>22 one, just got hired. If you look all the way to</p> <p>23 the far right, SKY Harbor just got hired in</p> <p>24 April. Let's put that one aside. But the other</p>	<p>1 book, I think it's an important point. Again,</p> <p>2 behind Tab 2. So, this is what I was saying</p> <p>3 earlier.</p> <p>4 If you look at the blue bar for domestic</p> <p>5 equity, you have a nice size overweight. That's</p> <p>6 been a tailwind to your performance for the</p> <p>7 first nine months of the year. If you look at</p> <p>8 combined fixed income, you are underweight by</p> <p>9 about 5 percent. That is what's driving that</p> <p>10 relative outperformance for the first nine</p> <p>11 months of the year. Being overweight to</p> <p>12 equities and underweight at the bond market.</p> <p>13 Your target is roughly 65 equity and</p> <p>14 you're close to 70 percent equity as of the end</p> <p>15 of September 30.</p> <p>16 MR. GOLDSMITH: Speaking to maybe what</p> <p>17 happened in October a little bit, one thing</p> <p>18 we -- as this plan raises about 2.5 million in</p> <p>19 cash per month. It's been a theme throughout</p> <p>20 2017, and really for most of 2018 that those</p> <p>21 selling assets to raise that cash has mostly</p> <p>22 come from U.S. equities. The strongest</p> <p>23 performing, most overvalued assets class.</p> <p>24 So you know, by trimming sort of</p>
<p>Page 111</p> <p>1 five, all productive capital during this</p> <p>2 volatile time period for the bond market, which</p> <p>3 is good to see. The first two managers have the</p> <p>4 majority of the assets. That is almost half of</p> <p>5 your fixed income allocation. They both, you</p> <p>6 know, on a year-to-date basis, projected</p> <p>7 capital. Is good to see.</p> <p>8 MR. GOLDSMITH: Just a note on SKY</p> <p>9 Harbor, you might remember, that's a high yield</p> <p>10 manager that was added. The benchmark for</p> <p>11 combined fixed income is the Barclay's</p> <p>12 aggregate. Even though SKY Harbor, you know,</p> <p>13 has lagged in its style specific benchmark, that</p> <p>14 decision to add high yield specifically into the</p> <p>15 fixed income portfolio has added a lot of value</p> <p>16 since inception. SKY Harbor is up 2.45 since</p> <p>17 early 2018, while the Barclay's aggregate is</p> <p>18 negative over that period. It's an allocation</p> <p>19 decision to high yield.</p> <p>20 MR. DiFUSCO: Is this in the binder, as</p> <p>21 well?</p> <p>22 MR. GOLDSMITH: Yes.</p> <p>23 MR. AMMATURO: Is think it's worth to</p> <p>24 point out, reiterate 2.6 in the book, the large</p>	<p>Page 113</p> <p>1 consecutively throughout the year, it's a way of</p> <p>2 dollar-cost averaging those assets on the way</p> <p>3 out. So you know, being overweight in October</p> <p>4 to domestics didn't help. But letting it drift,</p> <p>5 it would have been much more overweight. I</p> <p>6 think that's, obviously, a little -- when we</p> <p>7 give our recommendations to Chris, relative</p> <p>8 valuations and our outlook for the future is</p> <p>9 always, you know, what goes into that decision.</p> <p>10 We handed out the market value as of the</p> <p>11 end of the day yesterday. You know, I don't --</p> <p>12 I think we are a little bit underweight to cash.</p> <p>13 That is by design throughout -- we like to keep</p> <p>14 a cushion to cash. So when there is volatility</p> <p>15 like you saw in October, we don't -- aren't</p> <p>16 forced to sell assets at, you know, in the</p> <p>17 middle of 10 percent market correction. And we</p> <p>18 did. I think you might have seen we rebalanced</p> <p>19 it this week. Taking assets from fixed income</p> <p>20 now as sort of the market conditions have</p> <p>21 flipped somewhat.</p> <p>22 CHAIRMAN SCOTT: We went from</p> <p>23 September 30 we were at 550. And on</p> <p>24 November 13, 521?</p>

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<p>1 MR. AMMATURO: Yeah. 2 MR. DiFUSCO: About a 6.4 percent -- 3 this morning, 6.4 percent decline. 4 MR. GOLDSMITH: We expect the October 5 flash performance to be available, hopefully, 6 later on today. If it is, Chris will distribute 7 it to you all. 8 CHAIRMAN SCOTT: Thank you. 9 MR. AMMATURO: Thank you. 10 CHAIRMAN SCOTT: Chris, No. 5. 11 MR. DiFUSCO: Sure. We discussed this 12 briefly. I mentioned over email. We set up 13 Commission supported approval that diversity 14 female veteran local brokerage program about a 15 year ago. We started that at 30 percent target. 16 We have seen a lot of managers close to it or 17 exceed it. And a couple that are not or happy 18 to be ones that, for various reasons, are on 19 their way out. 20 And so, the large pension fund, the City 21 pension fund recently increased the target to 22 35 percent. I think it makes sense. We have a 23 lot of the managers in common. You know, a lot 24 of these managers work with other public funds</p>	<p>1 immediately. But I am saying practically 2 speaking, since we are halfway through the 3 quarter, I suspect, you know, it's reasonable to 4 ask them to start meeting that goal for the 5 first quarter. 6 MS. JOHNSON: Make sense. 7 MR. DiFUSCO: Just being realistic. 8 CHAIRMAN SCOTT: At the January meeting, 9 would we see actual performance? 10 MR. DiFUSCO: Sure. I send those out to 11 you as I get them. You will have those -- in 12 January on or before the first, you will have 13 the numbers at the end of the quarter for third 14 quarter. The fourth quarter numbers will 15 probably be ready around the first of February. 16 Have to add everything. Soon as I have them, I 17 will send them out. 18 CHAIRMAN SCOTT: Thank you. 19 MR. DiFUSCO: Yup. 20 CHAIRMAN SCOTT: This has been a pretty 21 long meeting. 22 MR. DiFUSCO: Try not to do that very 23 often. 24 CHAIRMAN SCOTT: That's all right.</p>
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<p>1 that have, you know, high targets, as well. 2 With the Commission's approval, I would 3 like to increase the target here as well to 4 35 percent. Keep those consistent and, you 5 know, push our managers on the diversity and 6 gender front to deal with a little bit more. So 7 if the Commission is so inclined, I would ask 8 for a motion to support that. 9 MS. JOHNSON: I'll make a notion -- 10 MR. WHITE: Second. 11 CHAIRMAN SCOTT: I think the motion was 12 made and it was seconded. 13 MS. JOHNSON: All in the same breath. 14 CHAIRMAN SCOTT: All those in favor? 15 (Ayes.) 16 CHAIRMAN SCOTT: That is passed. 17 MR. DiFUSCO: Thank you. I will alert 18 the managers. And just for reporting purposes, 19 I will probably ask them to, you know -- you 20 will see what it is at the end of the quarter. 21 I will expect that they will start more fully 22 given it's already mid November. You really 23 kick that into gear the first of the year. That 24 is my expectation given the target will increase</p>	<p>1 Are you guys ready to adjourn? 2 Is there a motion to adjourn? 3 MR. WHITE: Motion to adjourn. 4 MS. JOHNSON: It's seconded. 5 CHAIRMAN SCOTT: Thank you, everybody. 6 (At this time, the Meeting adjourned at 7 12:19 p.m.) 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24</p>

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CERTIFICATION

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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