CITY OF PHILADELPHIA

SINKING FUND COMMISSION

In Re: Monthly Meeting

- - -

November 18, 2020

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This Virtual Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned case, before Patricia Slater, a Court Reporter and Notary Public for the Commonwealth of Pennsylvania, held at Two Penn Center, 16th Floor Conference Room on the above date, commencing at approximately 10:00 a.m., pursuant to the State of Pennsylvania General Court Rules.

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A P P E A R A N C E S

COMMISSION MEMBERS:

Donn Scott, Chairman

Rebecca Rhynhart, City Controller

Francis Bielli, Designee for Office of Finance

ALSO PRESENT:

Nadia Matthie
Tania Kinniry
Al Johnson
Joseph Romaines
Marc Ammaturo
Adam Coleman
Alexander Goldsmith, PFM Asset Management
Daniel Leonard, PGW
Joe Golden, Jr.
Vanessa Jackson
Bill Rubin
Surya Pisapati
Christopher DiFusco, Chief Investment Officer
Kellan White, First Deputy City Controller

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CHAIRMAN SCOTT: Good morning everyone and welcome. It's my pleasure to open this meeting of the Sinking Fund Commission.

The first item of business is the approval of the September 2020 minutes.

Is there a motion?

MR. WHITE: Motion.

CHAIRMAN SCOTT: Motion has been made.

Is there a second?

MR. BIELLI: I'll have to obtain since I was not at the meeting for September.

CHAIRMAN SCOTT: Yeah. I wonder if I can second.

MR. WHITE: Yeah. You can second.

CHAIRMAN SCOTT: I'll second it.

A motion has been made and properly second. All those in favor say aye.

(Ayes.)

CHAIRMAN SCOTT: So the minutes have been approved.

The second item on the agenda this morning is the Annual Actuarial Presentation. And I'm going to turn it back over to Christopher.

MR. DIFUSCO: Thanks, Don.

I just wanted to welcome Fran Bielli as the fiance directors new designee, and I appreciate him joining us this morning.

Al Johnson and his team from Aon (sic) are here to present the Annual Actuarial Report. There were several documents. I think the one that Al is going to start with is up on the screen. There was also an experience study, some documents related to Gasby (sic) and some various, you know, hypothetical scenarios that Al and his team walked through.

So with that, I will turn it over to Al to go through the presentation. Obviously no one should hesitate to ask questions along the way if they have them.

MR. JOHNSON: Good morning. Thanks, Chris.

Can everybody hear me all right? I just want to make sure the audio is working.

CHAIRMAN SCOTT: We are here good here.

MR. JOHNSON: I'm with my colleague, Joe Romaines, who is also on the call with us today. Between us, we are going to share the Annual Actuarial Evaluation for the PGW Pension Plan.

We do this every year with you guys, and the purpose of this report is to provide you with PGW's Pension Plan liabilities. This year, as of July 1, 2020, the funded position of the Plan as of July 1, 2020, and the cash money requirements for the Plan -- from the plan year that runs from July 1, 2020 through June 30th, of 2021.

The primary purposes of this report, as Chris said, I like to make these presentations, discussions, a discussion-type event, so if you have any questions as we are moving through here, please don't hesitate to stop us and we will be happy to be answer.

If we go to page -- now it's page 1 without the numerical -- without the roman numerals at the bottom. So if you could switch up to page 1 there, Bill.

I think everybody has a copy

of the report as well. You can look at the screen or look at the copy that was passed around to you.

Here is the summary of some of the census data as of the last two plan years. As we see the active participants, we are seeing slow declines in that, and that is primarily due to the pension choice option that incoming PGW employees have to either elect to join the define benefit plan, which is this plan, or to go into their define contribution plan. The employees at hire have that choice.

We generally, this year, 53 percent of the new employees joined this plan and 47 percent joined the define contribution plan, so it's relatively 50/50 split. That's fairly consistent over the past few number of years since that's been implemented. What we are going to see over time is a gradual decline in those active participants as more people are retiring from PGW that are going to be entering this plan.

(Zoom connection disturbance.)

MR. JOHNSON: -- has also declined proportionately. We are going see that as more and more of the folks, you know, as less and less folks are active in this plan there is going to be -- the payroll is go to shrink along with that trend.

The average pay this years was relatively flat, and the other statistics relatively similar to last year. Slight declines again because we are seeing that turnover of older longer service people are retiring and being replaced by, you know, generally younger low service employees.

On page 20, there is a full data reconciliation, and we will get to that as we get to that part of the presentation.

If we flip over to the next page, and here is really the big page. This is the contribution -- showing what the contributions amounts are from last year to this year. The contribution of PGW has two components; one is called the normal cost. And what the normal cost is, is that is really just the value of the benefits being accrued by participants in the plan year. The 6.1 million is really like a current compensation cost, um, it can be looked at as compensation being delivered through the define benefit plan, so it's delivered at a little bit of a different fashion there.

The second component is

amortization or installment of the what we call the "Unfunded Actuarial Accrued Liability". The Unfunded Accrued Liability is just the liabilities of the plan that aren't fully match by plan assets.

What we do is, that amount gets paid down generally over a 20-year period through annual installments, so it's really like paying down a mortgage. That unfunded liability can be viewed as, like, a mortgage balance. It's gets paid down in these annual installments until it approaches.

MR. JOHNSON: The installments -- the amortization that we do is done in two different fashions; one is called a 20 year open amortization, and what that is we just take the unfunded accrued liability each year, and we re-advertise it to paid down over a 20 year period. The 30 year closed amortization is, each years change and unfunded liability gets amortized over a period of 30 years, and that winds down through those 30 years, so each year we have a new slice of, let's say, change and unfunded liability that gets amorted (sic).

This policy gets the normal cost of the plan plus that amortization of that unfunded liability.

Now, if we look at, you know, from what we can see here is there has been a pretty material decline in the contribution, um, from 2019 to 2020. What I want to do is, because it is a pretty material change here, I want to walk you through each of the components that led to that -- to that reduction.

If you look down a little

bit on the page there, at Point A,
I guess, we will say A. This year
as part of that evaluation process
Aon performed an experience study
on the Plans actuarial
assumptions, and we typically do
this every five years. What we do
next is to basically look at the
experience of the plan and sort of
-- bench mark that against what
the assumptions that we assume in
that period, and also looking at
into the future and saying, are
these assumptions still relevant
for the future. It took a look at
all of the assumptions that we use
in the plan from retirement,
rates, termination rates, to the
salary increase assumptions, and
we made adjustments to almost
every actuarial assumption that we
used in the evaluation this year,
because we did a very, very deep
dive on these things and there was

a number of places where the experience had deviated somewhat materially from our actuarial assumptions.

What we are doing do is trying to bring those assumptions into a better alignment with the plan experience. And all of that actually produces a decrease in the plans actual accrued liability as the plan contribution of about 1.8 million or 1.8 percent of payroll.

It's pretty noticeable reduction account of these new assumptions that were now reflecting in this July 1, 2020 evaluation. We did the study during the summer. We met with the PGW team and decided to go ahead and move forward to make these changes to the assumptions. They were abate in our 2020 evaluation.

There is a complete list of all of the changes on page 24. When we get back to the actuarial assumptions, you know, we can take a look at that. There is a list of everything that needs to be done. There is also a full report that we gave to PGW, as well as, Chris on the assumption studies.

If there is any questions on that we will be happy to answer those as well.

CHAIRMAN SCOTT: Tell me again. The 1.8 that you referenced, is the difference in what?

MR. JOHNSON: That's the same --

MR. RUBIN: Al, can you face your computer? I'm sorry, when you look away they can't hear you.

MR. JOHNSON: Oh, okay. I'm sorry.

So the 1.8 million is, Don,

is what the reduction in the
contribution would have been had
we not made a change in the
actuarial assumption. So if we
were using the same assumption
last year -- as we were last year,
on that account, the contribution
would have been 1.8 million higher
then it is with the new
assumptions.
      Basically the new
assumptions gave, you know, a
reduction of 1.8 million in that
policy contribution over what it
would have been had we still been
using the previous assumptions.
      CHAIRMAN SCOTT: Got it.
Okay.
      Thank you.
      MR. BIELLI: Al, it's Fran
Bielli.
      How you doing.
      MR. JOHNSON: Hi, Fran.
      How are you?

MR. BIELLI: Good, good.

MR. JOHNSON: Nice to talk to you.

MR. BIELLI: You too.

So out of that 1.8, 1.6 million of it constituted demographic changes; is that accurate?

MR. JOHNSON: Um.

MR. BIELLI: As it letter E on page 2?

MR. JOHNSON: Right. So if we looked that purely what we would have expected the contribution to have been for 2020, if we would have just really taken '19s number and rolled them forward to 2020 without any changes in the census data, this is where the change in census data comes in from '19 to '20.

If we were to use the same, the contribution would have been about $300,000 higher. What happened was, we had some favorable experience with the census data during the year, so that actually reduced -- using new census data actually reduced the contribution about $300,000.

There was a lot of favorable things working this year in the plans -- in the plans favor. The demographic change was also one of them.

MR. BIELLI: Was that something that was not assumed prior to 2019 and 2020? In other words, was it a surprise?

MR. JOHNSON: No. Actually it isn't, Fran.

It was about -- I think it was maybe about a .1 percent difference in the liabilities, so there really -- it really wasn't a significant event, so the change in the demographics had a positive impact but certainly not anything that would be out of normal expected ranges for changes from one year to the next.

MR. BIELLI: Thanks.

MR. JOHNSON: Okay.

The other -- just the other elements that, you know, that led to a reduction over the change, I should say, is because the UAL, the Unfunded Actuarial Liability, went down -- the amortization of that also went down. A smaller mortgage leads to a smaller, and that decreased the policy contribution $500,000 or .5 percent pay.

Investment returns this year were a little bit less -- came in under the assumed rate of 7.3 percent. It was a rough year. We had COVID going on, markets were in chaos in, you know, Q1 and Q2. There was a big upswing in the equity markets in the period following June 30th. We missed that just because of the timing -- the concern about 2.8 percent and that actually generated an increase in the contribution by .6 million or .6 percent of pay.

We use an actuarial value of assets here and the actuarial value essentially defers 80 percent of that a loss, and only recognizes 20 percent of it. It smooths out that plus 5 year period. It doesn't get fully recognized as it would if you were using the market value.

We have a new mortality table that we put in this year. The industry standard is what's called a PRI 2012 Mortality Table. This is the latest and greatest mortality table from the society of actuaries. It was published last year and we have adopted that a long with the most up-to-date mortality projection scale. But what's been occurring is that over the last few years longevity has in these tables has actually been contracting a bit. So we've seen some gains actually from the new mortality tables. It actually decreased the contribution about $500,000 using that new mortality table. But the new mortality table is what auditors will look for in doing their work, so, you know, we are keeping the table up-to-date using the most recent available.

We talked about the demographic changes. Employee contributions have been increasing, new employee contribute 6 percent of pay as part of being a member of this PGW pension plan, so as the, you know, as there are folks retiring who are not paying and employee

contributions are leaving and we
are have these new folks coming in
paying 6 percent, we are slowly
seeing an increase in the employee
contribution. That offsets the
employers portion of the
contribution because that's the
portion that the employees have.

CHAIRMAN SCOTT: When was
the 6 percent implemented?

MR. JOHNSON: I believe -- I
don't have the exact date, Don. I
think it was around -- in May of
2014 or 2015.

Joe, do you --

MR. GOLDEN: Yes. In May of
2011, it was affective from the
union personnel who came on board,
and December of 2011 for the
management or nonunion people that
came on board. They were broken
apart because that's when the new
union contract came into play and
management was implemented a

little bit later by corporate policy.

CHAIRMAN SCOTT: Thank you.

MR. GOLDEN: You're welcome.

MR. JOHNSON: With all those factors in place there, the policy contribution has declined about 12 and 1/2 percent --

The policy contributions dropped about 12 1/2 percent this year. Last year we're at 26.8. This year we're around 23, and again, that's factoring in all of those items that I just went over, so this has been the net result of that as a percent of contribution. As a percent pay, it's down from 27 are to 24 and 1/2.

I just wanted to bring up something that we talked about last year, which was while the contribution has declined, and it declined last year as well from 2018 to 2019, was that PGW has

built in into their rate structure
to fund this plan at a higher
contribution level. So my
suggestion would be to maintain
that and even move it, maybe, even
up to around, let's say 30 million
dollars from July 1, 2020 through
2021, for this plan, you know,
instead of putting it 23. 23 and
1/2, move it up to about 30
millions dollars. Keep the extra
discretionary funding coming in
because it's available right now.
It will get the plan to a better
funded status of in a quicker
fashion, you know, it will build
up that funded percentage and get
it closer to 100 percent. Sooner
rather than later. Some of the
benefits of that are if there is a
another let's say a 2008 event,
where you have the significant
downturn in the markets, you will
-- the plan will be better, and

the organization will be in a better position to withstand that. It's easier going from, let's say, 100 percent to 80 percent funded, you know, from 70 percent to 50 percent, so the contribution increase will be at a much greater level if the fund was lower funded at the time, let's say, a large market -- a negative market event that the occurred.

I just wanted to put that out there and see, you know, what the Commissions thoughts are this year.

Chris, maybe you want to add some comments to that as well. I don't want to overreach here on my obligations to the Fund, but I think it's a sound prudent idea to keep the funding up -- the funding level up if that money is available and it is, in fact, built into the rate structure of

PGW.

MR. DIFUSCO: Yeah, Al. I've spoken to both -- or training correspondents have spoken to both, Joe Golden at PGW and Rob as Finance Director, and they are both, you know, comfortable building in the -- what we will describe as the excess contribution at 30 million.

Then as I understand it, and you can correct me if I'm wrong, but that would serve as a floor and I know we probably wouldn't get there for several years, maybe longer, based on your projections, but if at some point the required contribution became, I will just make the number up, 30.2 million, then PGW will contribute that amount. This would serve as a floor not a ceiling going forward. They would be contributing, let's call it, 6.5 million more roughly

this year then required by your
projections.
MR. BIELLI: Chris, if it
would serve as a floor, what's
mandating that floor?
MR. DIFUSCO: So every year
Rob is required per the terms of
the ordinance or the agreement
with PGW to set the -- a return
and then any changes to the
funding levels. He would by
letter, you know, on an annual
basis just reaffirm the 30 million
dollar minimal contribution.
MR. BIELLI: Right. So what
if next year, the following year,
Rob decides he does not want to
meet the 30 million dollar floor,
what's in place to require that.
In other words, is it
actually a floor or is it a
discretionary floor?
MR. DIFUSCO: I think it
would be a discretionary floor,

but, you know, my understanding in talking to Joe, and Joe jump in, I don't want to misstate, but the way the PGW budget is structured, the rate increases they put in, my understanding is that at least part of that is predicated on increased, you know, benefit funding or increased retirement contributions. And then it would be somewhat difficult for PGW to walk that back absent, you know, in extraordinary circumstances.

I don't disagree that technically it's discretionary. I think that's right, but -- and Joe, correct me if I'm wrong about that.

MR. GOLDEN: Yes, Chris. You're right.

It will be a discretionary floor that Rob can reset every year, but obviously we would not go below the required contribution. Right now in our rate case that we filed last February, which should be decided December 4th, we have 29.2 million dollars in rates. Assuming everyone is billed according to those rates, it would seem inappropriate from a PGW point of view, and that was the point we made with Chris and Rob, to contribute less then what was in rates.

Keeping with our past several years them, we would round that up to 30 million dollars even though only 29.2 million is in our current rates. It would seem inappropriate to bill that money, collect that money, and then not use it for it's intended purposes.

So that's the avenue we took there, Fran.

MR. BIELLI: And concerning the rates, I mean, I assume with

the continuation of the COVID and
cold season coming upon us, that
there is a concern at least for a
portion of the rates, you know, in
the winter months; is that
accurate?

MR. GOLDEN: Well, I think
-- not in the rates in terms of
billing it, Fran.

What's going to happen is
those rates are going to be billed
and I think then we will have
probably a negative impact on our
debts, which might be greater then
what we have in our rates.

MR. BIELLI: Right.

MR. GOLDEN: So that's where
it would fall out. But the people
would certainly be billed the 29.2
million if the weather stayed in
it's normal pattern and usage
patterns happened as budgeted.

We are not as effective as
the City in terms of they may lose

tax revenue because of people not working. People be will probably still leave their thermostats the same based on the cold of the current upcoming winter.

MS. RHYNHART: Hi. This is Rebecca Rhynhart. Sorry that I'm a few minutes or 20 minutes late to this. I do apologize.

I have one question for PGW, which is around, and maybe this was covered. Again, I'm sorry if it was, but around the pandemics impact on PGW and how that interplays with the 30 million dollars floor?

MR. GOLDEN: Sure. Thank you Rebecca. Great question.

We just touched on that a little bit right now.

MS. RHYNHART: Oh, okay. I'm sorry.

MR. GOLDEN: No, it's fine. I'll gladly go over it again.

We do have a rate case that is pending before the Public Utility Commission. In that rate case, we have 29.2 million dollars of pension expense in the rate case. So with the winter coming up as it is, people will leave their thermostats at the same level. Right now, we are not seeing much change through October of this year through October of last year. Usage is about the same. We are still collecting at a 96.X rate, which is above our budgeted 96 percent. We're not sure how that will hold through the winter, but that's where we are now.

I just said before you jumped on. It would seem inappropriate for us to have 29.2 million dollars in rates, and then to deposit something less into the Sinking Fund. We will add in the extra 800,000 to round it to 30 million even consistent with past years to put in a little more then we were required.

In your report you see on your screen, the required contribution issue will be 23.5 million. But again, since our rates have built in the higher amount, that's where we would play to contribute.

MS. RHYNHART: Okay. So I had just two follow-up questions.

One is just I thought, and correct me if I'm wrong, but the recent refunding that PGW did, took the savings, um, of that refunding over the next few years in response to the pandemic, so I assumed that there was some financial strain, but maybe that was wrong.

MR. GOLDEN: I would say we were asking to have the cash upfront in the event it developed in this coming winter.

MS. RHYNHART: Oh, I see. As a cushion.

MR. GOLDEN: -- cash reserves for the next two years. That would be as we continue our debt service coverage calculation, I believe we took 5 million in Fiscal 21 and either 4 or 5 million in Fiscal 22. That would help us make our debt service coverage up a little, and also provide 10 million dollars, if needed, in the next two fiscal years.

MS. RHYNHART: Okay. And then my second question, and I know I've -- it's been made quite clear to me, I do not have a vote on the assumed rate of returned pension fund, so, um, Chris DiFusco is supposed to smile now, but I can't see him.

But I will -- oh, I see him now.

Even though I don't have a vote, I'm still going to ask the question; Why is PGW and the finance director so much more comfortable with this increased 30 million dollars instead of lowering the assumed rate of return, which is what my office advocated for last year.

MR. GOLDEN: I talked with Al Johnson the other day with Dan Leonard, and what we looked at is by contributing the 30 million dollars, it affectively is a contribution to the fund at, Al, what is it, 6.

MR. JOHNSON: I would say 6.4 or 6.5.

MS. RHYNHART: Okay.

MR. GOLDEN: We are actually contributing as if the assumed earnings rate was 6.4 percent,

which I believe would even be
lower then what your office would
advocate for.

However, it does -- it keeps
the fund managers looking to get a
higher assumed rate of return, so
they're investing according to a
different schedule. What it does
is, it doesn't impact PGW's
balance sheet by having a true
lower earnings rate would increase
the unfunded liability. We were
trying to actually manage the
balance sheet, focus on
contributing more but having the
fund managers still manage to a
higher assumed rate. We thought
we were attacking everything
appropriately.

I might still argue for the
lower assumed rate of return, but
we can move on since I don't have
a vote.

MR. DIFUSCO: I just wanted

to jump in with the preliminary discussion Rob wanted to hear everyone's, you know, thoughts and such today.

You will see in the model, and I know one of the scenarios that was run, and it's obviously Rebecca not as low, you know, as perhaps your office advocated, but it does show what a gradual -- beginning to do a gradual reduction in the assumed rate simultaneous with the higher contribution would be.

Based on, again, preliminary conversations, I don't know that Rob is opposed to that in terms of looking at a gradual reduction combined with the higher contribution level. It might --

MS. RHYNHART: I think that -- that would make sense to me. I think that would be a positive step in the right direction to just start to lower that assumed rate of return.

MR. DIFUSCO: I think one other thing, and given sensitivity around, I don't want to jump. It might also be useful, and I can't certainly ask the folks who are going to present to us on the consulting side in January to add a couple pages to their respective presentations on how the -- their recommended allocations look over the next, let's call it, five years or ten years if you were also doing a gradual reduction. I think that would also be a useful exercise.

Hopefully that's in total responsive to your question.

MS. RHYNHART: Yes.

Thank you.

MR. JOHNSON: I guess I'll keep moving through the balance and the report here --

MR. DIFUSCO: Al, if I can interrupt you, the report that you refer to, is that worth showing at this moment while this topic is fresh in our minds?

MR. JOHNSON: Sure. If people would like to jump over to that. It's fine with me.

Bill, that's one that shows the 30 million dollar contribution with the 7.2 percent reduction in the next fiscal year.

MR. BIELLI: While we are looking, I just want to reiterate one thing that the controller talked about, and it got to what I was talking about, Joe.

Right now the additional contribution is discretionary. It's -- you can regardless of what the rate presentation was made by PGW concerning 29.2 million dollars, what's the remedy if PGW does not contribute that amount.

The remedy is nothing.
There is no remedy. The -- if the assumed rate of return is lower, then the contribution is required, it's a required contribution. That's the plus -- that's the plus side of reducing the assumed rate. And I agree with what Chris said. There has to be a happy medium somewhere where maybe the rate is gradually lowered, because, you know, I know we have new leadership coming into PGW at the beginning of the year, how do we know the new leadership is going to support the additional contribution. I think, in essence, the trustees of the Sinking Fund are being asked to trust the PGW folks that the additional contribution will be made, but I think there is fiduciary duty as one of the trustees of the Sinking Fund to

try to make sure as much as possible that, that additional contribution is made.

So while I understand and respect what you're saying, Joe, that's the interplay between the two things. You want to make sure that the additional contribution is memorialized as best it can be without putting a financial strain on PGW, and certainly I understand both of them, but that's really what I was getting at when I asking you those questions. 29.2 million dollars is not guaranteed in any way, none. By the way, you can bill the folks during the winter months. Receipts are what the focus should be. You can bill people as much as you want. I believe you're still not allowed to turn off the utilities, right? It's what you receive that's the key, not necessarily what you bill, right?

MR. GOLDEN: That's correct. Yes, you're correct. We cannot turn off customers currently until April 1, 2021 per the PUC regulations. It wouldn't -- just to address your point, I don't think it would be incumbent upon PGW management to address something different if the director of finance is setting the contribution level.

To the extent that the director of finance would send that letter to PWG, that would be our contribution amount.

MR. BIELLI: Sure.

MR. GOLDEN: Yes. Obviously it is discretionary in the eyes of the director of finance. It would not be in discretionary in the view of acting CFO of PGW. If I received a letter, that's the deposit we would make.

MR. BIELLI: Right, right.
And the discretionary part is certainly the budgetary's strains that are currently occurring throughout the city. It's an interesting time to be relying on a discretionary payment.
That's all I will say.
MR. DIFUSCO: Al, remind -- and I may have sent this out to folks or maybe it was just something you and I talked about or a couple of us talked about, every 10 basis point drop in the assumed rate was roughly 680 to 700 additional annual contributions; is that right?
MR. JOHNSON: Exactly.
MR. DIFUSCO: That's the rule of thumb. So that extra five -- essentially let's say 5 million, that's where we hit data of 6.4 as an equivalent rate of

return for that 30 million dollar contract.

MR. GOLDEN: Rebecca, what was that target that your office was looking to implement going forward or was there a range?

MS. RHYNHART: Yeah. They sent our analysis. We had requested 7 percent, or that's where our analysis came out would be a reasonable assumed rate of return for the fund, and especially there is more -- because of the negative cash flow in the fund, we would thought it would be also prudent to lower it to actually perhaps reduce some of the risk on the investment side, so 7 percent though to answer your question.

MR. GOLDEN: So a drop of 30 basis points, Al, would be about a 2.1 million dollar increase in the contribution as the required contribution.

MR. JOHNSON: Correct. Right.

MR. GOLDEN: So 23.5 million would go to 25.7 million, correct?

MR. JOHNSON: Yeah. Right.

MR. GOLDEN: Okay. Thank you.

MR. JOHNSON: You would just add that right onto that 23 1/2, that additional 2.1. That's what the policy would yield at about 7 percent.

MR. GOLDEN: Okay.

MR. JOHNSON: The policy contribution.

MR. GOLDEN: Yep, yep.

MR. JOHNSON: So, in fact, even at 7, you'd still be making a discretionary contribution over what the policy contribution would be at the 7 percent level.

(Pause.)

MR. JOHNSON: Would you like

me to keep going or do you want to go back to the old chart?

MR. GOLDEN: That's all I had on this topic. I just wanted to see the change.

Thank you.

MR. JOHNSON: I think we can turn to the next page.

This is just showing you a summary of the -- some of the liabilities. Snap shot is a January 1, 2020, and you can see, as we've been discussing, that unfunded actuarial accrued liability is dropped about 11 percent this year mainly due to all of those factors that we talked about on the previous page.

If drop down, you can sort of see quantification of that demographic game. These impacts of the experience of -- 6 million declined -- 6 million declined due to that new mortality table. This is on the actual plan liabilities. The plan this year is about 75 percent funded. It was 72 1/2 last year, so because of all of these, you know, changes we've seen a nice increase in the funded percentage over the year. And the discretionary contribution also helped that, that funded percentage, you know, as another factor.

Page 4 it just shows the market value of assets and the actuarial value of assets, and again, the actuarial value is a smooth market value, so we smooth gains and losses -- investment gains and losses over a period of five years to reduce some of the volatility in the asset evaluation number, and that reduced volatility also helps make the contribution a little less every year as well.

MR. BIELLI: Al, Al?
MR. JOHNSON: Yeah.
MR. BIELLI: If I can go back to page 3 real quick. This is because I don't have the benefit of the prior years actuarial reports right now.
The unfunded accrued actuarial liability, went down, it seems to me, pretty significant, 11.4 percent. Is that due to the experience study or was it due to some other change? I assume that's higher than usual annual reduction. But I don't know.
MR. JOHNSON: Oh, definitely, Fran.
You generally won't see -- you'll see that, you know, in single digit numbers generally, but the factors at the bottom of the page two that we went through, all of those also apply to the unfunded liability. So it's the

net effect of sort of those gains that we had from the experience study, the mortality table, and the demographic, and employee contributions, so we it offsets somewhat by the loss on the investment side. It's really the net effect of those two that unfunded liability is just -- the plans liability modesty of actuarial of assets --

MR. BIELLI: Yeah. I'm familiar with that. The 11.4 was really my questions.

MR. JOHNSON: Does that make sense.

MR. GOLDEN: If I could jump in also.

Just to remind all the Commissioners, in 2011 when I was alluding to earlier that the -- that's when we implemented the co-pay for the defined benefits plans, it's also when PGW introduced their 401-A plan. So in the old days, so to speak, we had about 1650 employees all of them would have been in the PWG pension plan. As of today, we only have -- I'm sorry, we have 475 employees active who are in the 401-A plan and will not be receiving a PGW pension. That could also contribute to some of the decreased liability. As new employees come on, we are seeing about 50 percent of them are choosing the defined benefit plan and 50 percent are choosing the define contribution plan.

This also assisting us in managing this going forward. I just wanted to remind everyone who maybe new to the process.

CHAIRMAN SCOTT: Is the unfunded pension liability containing -- if you look back five years, I'm assuming it would have been much higher, so the trend line is down?

MR. GOLDEN: Al, do you have that data? I don't have that in front of me.

MR. JOHNSON: If you were to -- we can jump backwards in the report. If you were to go to page 13 in the report.

This shows really a sort of the 10 year history of the -- how funded the plan has been over time, so you can see we've had some up's and down's. We've had a couple events happen there.

If you could just pull it down a little bit further. Yeah, right. That's good. Just so we see the chart.

You can see we had in 2014 and 2015 we had a pretty substantial drop. We were moving upward of 80 percent, but the interest rate or the discount rate was lowered at that point. I mean, this is kind of that discussion we've been having about that investment return rate. That was dropped and, you know, it brought the plan down. It was also dropped again in 2016 and there might have been some other factors involved there.

Since 2017, we've been gradually increasing. We've been gradually narrowing that unfunded liability. If a pension plan -- the mechanism of a pension plan, a funding method, is to gradually get the plan to being 100 percent over some period of time, so if we let sort of the plan run out and we do a projection on it, at some in 20 or 30 years we should get to 100 percent funded. What ends up happening in the interval is that our actuarial assumptions don't exactly match what's happening in the world in reality. Each year we have sort of those bumps up and down due to just things like we did, this experience study, and, you know, other items. It will gradually go up and down, but in the long run it should continue to generally trend upward towards being 100 percent funded. The mechanism of the funding method is always to try to get it back on the path to being 100 funded regardless of the deviations that actually occurred in the past. It's sort of a corrected method in that, well, you know, if we don't need assumptions we're going to have to make that up, and we make that up through higher contributions or perhaps lower contributions if the experience is better then we think it is. But ultimately that is where it's intended -- it's end point is being 100 percent funded.

MR. GOLDEN: And to your point, if you could just scroll up a little bit, you will see the changes in the assumed earnings rates. We were at 8.15 dropping to 795, 765, 730, that's explaining the jump in the unfunded liability.

MR. JOHNSON: Thanks, Joe.

MR. BIELLI: Al, what was -- I'm glad you're on this page, I mine as well ask the question now.

In 2018 and 2019, I'll call them outliners I don't know what you would call them, but the actuarial accrued liability in 2018 and 2019 seemed to be pretty much substantially higher than the others years.

Was there a reason for that? Were there more people who went and chose retirement during those years? What happened.

MR. JOHNSON: One of the factors was there was a year where payroll jumped significantly, average pay. It may have been a year where there was a lot of overtime earned, and that factors into individuals benefit calculations, so his -- if they earn more salary they are generally going to have a higher benefit at retirement. I think that's what was the factor from going from 739 to 758, we had about a 10 percent jump and average pay that year where we were assuming only about a four and half percent.

MR. BIELLI: Same with 2019?

MR. GOLDEN: You can see on the right-hand side the 94 million jump to 101 million.

MR. JOHNSON: Right.

MR. GOLDEN: That was, I believe, a colder than normal

winter and it was a lot of
overtime.
MR. BIELLI: All right.
MR. JOHNSON: 19 and 20, it could have just been some different experience there, Fran. Like I said, it just, you know, it can move a little bit unpredictably year over year, um, and that's due the deviations and the experience of the plan verses what we assume, you know, in the assumptions that we use.
MR. BIELLI: All right. Thank you.
MR. JOHNSON: I think we've covered the liabilities, we covered the assets of the plan. I was going to turn it over to my colleague, Joe Romaines, who was going to walk us through a few more -- a few more of the pages in the report sort of at a higher level. It's a lot of actuarial

numbers frying around there. We don't want to get you too overwhelmed in some of the actuarial work paper numbers. But I'm going to have him walk through. Then I will take it out at the end with look at the participant data and wrap up our presentation.

MR. ROMAINES: So I'm going to turn us to page 6. On the PDF, it's page 13.

On section C the financial assume. As we show here we show a reconciliation of the asset balance sheet from beginning of year to the end of the year, so end of the year period July 1, 2020. Showing that -- the starting asset value of 553 million growing to -- actually a drop of about 10 million to 543 million. That's as a result of income or investment returns totalling 45 million, so the employer contribution of 29 million, employee contributions of 1.5 million, and the investment return 14 million. Disbursements from the plan, majority made of benefit payments at 55 million, and the additional being administrative expenses paid out of the plan.

I just want to highlight the target allocations of plan being want 65 percent equity, 35 total fixed income, the actual allocation at July 1, 2020. Very close to those targets with the other 3.8 percent certainly for cash and cash equivalents and other receivables.

You will see that the greater return for the plan, so it was a positive return, but at 2.83 percent was below the long term assumption of 7.3, generally not unexpected given where the markets were at June 30th.

Turning to page 7 additional financial show of summary, so here we go to the details of how we developed the smoothing of assets or what we call the actuarial value of assets. A lot of numbers here, but really what I'll focus on is that the market value of assets of July 1st of the third line down, 5.43 million that's the account value as of July 1st. Compare that to the actuarial value at the very bottom, 557.9 million, so that's with the smoothing of gains and losses over the last five years.

With all of that actuarial value is about 103 percent of the market value assets, which is well within the plans corridor, of, you know, the actual value is limited to 80 percent to 120 percent of the market value of assets, so actual value at 103 percent is what is shown in that corridor.

No questions there, I will turn to the next page, page 8.

Another page kind of heavy on the figures, a lot of that is actuarial results. Majority of this page outlines the liabilities of the plan broken out between participants statuses, so participants who are retired and receiving a payment, participants who are no longer actively employed, but do have an investment benefit. In the pictures they are entitled to a benefit, active employees at PGW. The following kind of summarized, kind of in the bottom right section there starting on line six -- actually line 5, total actuarial accrued liability of the plan as mentioned earlier at 741 million, but comparing that to the actuarial asset value at 557.9 million, we get to the unfunded liability of 183 million dollars.

It's going to be a component for the calculation of the contribution. Another component is the normal cost of the plan or how -- what is the value of benefits being earned as participants work another year. In total, that's about 7.6 million and of that we would expect about 1.5 to be financed by the Crispin (sic) contribution resulting that of in 6.2 million and the normal costs for PGW.

If we turn to the next page, page 9. I dig in a little deeper to the calculation of the contributions.

As we've mentioned earlier, the policy contribution is the greater of a 20 year open amortization period. That's shown in the first half of this page, the bottom half is the 30 year close amortization.

So the calculation is made up of the normal costs from the top right there 6.16 million added to the amortization payment of the unfunded liability. We do show in lines 3, 4, and 5 what the contribution would be at the beginning of the year if it was made at mid year with interest and if there was interest to the end of the year. With PGW's contributions generally made and monthly installments, we generally focus on that mid year number, so line number 4.

As we compare the 20 year open and the 30 year close, now the 20 year open is a greater figure. Being 23.5 million compared to a 22.1 for a 30 year close. I think progressed over time the way that these are built we would anticipate in the future that a 30 year close would eventually open to a 20 year open.

In the past and in the near future, we would anticipate the 20 year open to be greater, and then a little longer 30 year process to overtake the 20 year open. A lot of figures there. I'll pause.

Any questions so far?

(No response.)

MR. ROMAINES: So our next page, page 10, we gave a little visual graphic, really how much of the contribution is made up of the amortization of unfunded liability, how much is made up of the normal cost of those ongoing accrued's for benefits, and then the sliver at the top is the half year interest for that payment.

Section F, these are

financial figures required for the plan audit financial statements. They are not incorporated into the funding schedule that required financial statements. It is included in the report here. Generally the figures follow a similar pattern and are similar to the funding figures Al had gone over earlier with a few slight differences generally for the actuarial method that's used.

Turning to the slide 12 schedule G. So we did add in some additional items on this page compared to prior years based on feedback at last years meeting. So, what we show here are the expected payouts to participants for benefits over the next ten years, so that's in the second column there.

Those stamps are expected to gradually increase for this upcoming year. We estimate about 57 million dollars growing in ten years to about 61.5 million dollars. We do compare that to what we would anticipate PGW's contributions to be. These figures are based on the policy contribution, so in this iteration it does not reflect an additional discretionary contribution as we've discussed.

Also compared to the inspected employee contributions, so that figure is expected to increase overtime as opposed to employees who are making contributions.

Finally, the resulting figure would be considered a payout and that would be covered by assets in the plan. Based on projection, assuming no significant deviations from our gains and losses, that equates to about 6 percent of plan assets, so that is below the plans current expected lone-term investment plan of 7.3 percent.

Turn to slide 13, what had covered we showed the funding process of the plan, which I highlight being the redaction in the assumed rate of return, and at certain points in the last nine years resulting in a drop of the funded status.

Page 14 we do show the historical figures, really broken out between what was the contribution based on the 20 year open amortization policy and the 30 year close, and really what you'll see similar chart in the top and bottom, also for the last column. Those are different and what you will see on this page in the past history the 20 year open amortization does exceed that 30 year close portion, but, again, what we will anticipate down the road is that they 30 year close would eventually overtake the 20 year.

The next page, page 15, we give a visual representation of that. So what you're seeing here are the calculations of the contributions under those two policies. The blue bar being that 20 year open, the green bar being the 30 year close, and generally what you see in the blue and green bars getting closer and closer together. As we are looking a number of years down the road, we will see that green bar overtake the blue bar.

On page 16, we give you a schedule of expected future-funded contribution. It's based on that 20 year open and 30 year close does not reflect the discretionary contribution in this in the next ten years and does assume that a similar pattern of about 50 percent of new employees selecting the DD Plan.

MR. BIELLI: Joe, is that assuming no redirection in the assumed rate of return?

MR. ROMAINES: That's correct. This is based on a 7.3 percent discount rate.

MR. BIELLI: Okay. Thanks.

MR. ROMAINES: One thing I'll point out so you generally notice the percentages do improve overtime. Over the next four to five years, there are years where it decreases in a year or two. That's generally a result of that smoothing of the assets. So with a -- our assets not -- having an asset compared to expectations this past year, it does take five years based on the consideration this is based on the actuarial value of assets, not the market value of assets.

That was a lot. Any questions there, I'll pause.

(No response.)

MR. ROMAINES: I think with that, I will turn it over to Al to cover some of the demographic info.

MR. JOHNSON: How are we on time, folks? I just want to make sure we are not running too far over here. I want to be conscious of that. I apologize if we are running a little long.

MR. DIFUSCO: We didn't set a time, I mean, if you want to run through the last part of your demographics, and if there is additional questions folks will ask them, or we will follow-up with you between, you know, between meetings.

MR. JOHNSON: Yep. Okay, good. I'll run through the last bit of the presentation fairly quickly.

Page 17, you know, gives a breakdown at the top for the retirees. How long have they been receiving benefits, and their age bracket, total annual benefits and average just to give you a real detailed look of the distribution of the current retired population. We also, down below, show those are people that have left PGW have a right to a future pension, but have not come in and began to collect that pension yet. There's some folks that are over -- and you can just scroll down a little bit there, Bill.

There are some folks that are over 65, you know, those are folks that probably are eligible to start receiving their benefits now, but maybe forgot they have a PGW pension or, you know, PGW has lost their address. Those are the types of people you want to try to get in a pay status, you know, as soon as you can.

Go over to page 18, here is a similar distribution finding by the active employees. Showing bucketed by service intervals, as well as, age intervals, and showing the number and the average compensation within those individual units.

One thing I wanted to note here is that, you know, in this plan, this is all of the employee of PGW, but 15 percent of the folks here are currently eligible to retire from PGW with an unreduced pension, and about 23 percent of this population is eligible to retire whether or not it's full benefit or reduced benefit, but nearly one fourth of PGW employees that are in are currently retirement eligible, you know, that can eventually be work force implication if you have a large group of these people leave the organization all at one time.

Page 19 is a graphic illustration of the actives by service. It shows that there is a good number of people under 20 years of service sort of less and less as you get up in the higher service brackets, because those folks tend to retire.

Finally, on page 20 is a detailed reconciliation of the census data from July 1, '19 to this evaluation, July 1, 2020, just showing you the ins and outs in each of the categories of planned population. Nothing too terrible illuminating there, just showing you how things are moving around and that we are slowly seeing that erosion of the number of active employees in this plan due to, you know, retirements, exceeding new participants coming into the plan.

MR. GOLDEN: Now, this is where I mentioned earlier that in the active column, 1153 participants although we do have about 1650 employees. And the balance would either be new higher's who have not chosen a plan or their in PGW's 401-A plan.

MR. JOHNSON: Right. So this is strictly the active participants of PWG, active employee of PWG that are in the PGW pension plan and not in the 401-A plan, so that's not the -- again, that's not the employee count of PGW, that's just the employee count in this plan.

Finally, there in back and I

will go through these in detail, is a summary of our actuarial assumptions. I will point you to page 24, and this is a comprehensive list of the assumptions that we made adjustments to as part of that experience study that we discussed earlier, so, you know, if there is any questions on that -- on the changes that we made, we're certainly happy to answer those questions. We're certainly happy to answer them off line or another meeting.

And then finally, in the far back is a summary of the plan -- the principle plan provisions of the PGW pension plan. You'll See just an overall summary of the plan provision.

That's it. That's really our presentation of the, you know, the financial status as of

7/1/2020.

Again, just as a quick commentary, I think at 75 percent funded plan is in pretty good shape compared to a lot of it's peers out in the -- sort of the public sector. It's been moving in the right direction, and, you know, hopefully those trends will continue into the future.

MR. BIELLI: Al, just a quick question.

I think you mentioned 15 percent of the folks are retirement eligible at this.

MR. JOHNSON: 23 percent.

MR. BIELLI: 23 percent.

MR. JOHNSON: Yeah. 15 percent, Fran, are eligible for an unreduced pension.

MR. BIELLI: Without the penalty. Got you.

MR. JOHNSON: Without any penalty, correct.

23 percent in total could go out with a, you know, a reduced or an unreduced pension.

MR. BIELLI: So my question is, Al, if for some reason there would be an influx of retirements -- I'll just make this up, next year, would you change your assumptions prior to the experience study being done? Would you ever do that based on an extraordinary event, or would you wait until the next experience study is done.

MR. JOHNSON: Well, that's a great question, Fran.

I think it would depend on -- it would need to see the materiality of the retirements, and if it rose to a level we could make a one year adjustment to our assumptions to reflect that excess retirement, but going forward in the future, we would generally

rely on the experienced of the
plan --
MR. BIELLI: I understand.
MR. JOHNSON: Yeah. Because
they're -- actually it raises a
great point. When we did the
study, we generally looked about
five years or so experience, but
when we looked at it, you know,
back in 2015 PGW had been put up
for sale and, you know, to a
private enterprise, and when we
did the study what we saw there
was a significant increase in
retirements in that one year, so
to do the study we took that one
year, and we really took it out of
the experience, because it didn't
represent a long-term type
retirement. It was an event
driven retirement pattern that it
wouldn't have made a good sense to
bring it into an assumption when
the bump was due to one event, one

particular occurrence of that.

We have to watch out for things like that, and yes, if they would have a material impact we would take a look at possibly making a -- like a one time adjustment to reflect something along those lines.

That gives you a good point of reference where something like that did happen. We had an unusual amount of retirements just before -- as that sale transaction was progressing which ultimately didn't happen.

MR. BIELLI: I remember. I remember.

MR. JOHNSON: Hopefully that brings everybody up to speed, you're comfortable with the results. Again, Joe and I are available -- Joe Romaines available anytime for questions, additional phone calls, or

meetings to go over any points
that we've raised here, any other
issues that you may have or want
to discus.

MR. DIFUSCO: Thanks Al and
thanks Joe.

And if there is follow up's
myself or someone else will be in
touch. We will keep you abreast
of any, you know, proposed
changes, if any, for the next
fiscal year as it relates to the
contribution or the actuarial
rate.

MR. JOHNSON: Yeah.
the only think we will need,
Chris, is before we send you
signed final reports is that
determination of what the
contribution will be for this
year. Then we will factor that
into the exhibits that we've done,
so it will change the reports
slightly and we will just

distribute a signed copy to everybody.

MR. DIFUSCO: Okay.

Thank you gentleman.

MR. JOHNSON: Is it okay for us to stay on to listen to the rest of the presentation or do we need to drop?

MR. DIFUSCO: No. It's a public -- they're public, so there is no issues if you guys stay on.

MR. JOHNSON: Thanks, Chris.

CHAIRMAN SCOTT: Christopher, Could I ask a question?

MR. DIFUSCO: Of course.

CHAIRMAN SCOTT: I just want to understand the process. The actuaries, do they meet one-on-one with PGW and then they meet with us, and Rob gets a summary of -- how -- what's the interconnection between the three parties?

MR. DIFUSCO: Sure. You

nailed the first two parts. They meet, they have discussions with, you know, Joe Golden and the team down at PGW, then they meet with us annually as they just did. Then Rob does get a copy of the full report. Rob gets a copy of everything that you folks get every month or every other month including this, he gets a copy of. There will be follow-up discussions. I will discuss things with him. Folks can certainly reach out to him if they have specific comments or concerns, and then he comes back to PGW and myself with the annual determination letter about the contribution, the assumed rate of the return, et cetera.

He will get a briefing today on what the discussion was; the points that you raised the points that the controller raised,

obviously Fran is the designee,
the questions Fran brought up, and
then he take all of that into
account as well as any additional
information that's requested to
come to that decision.

CHAIRMAN SCOTT: So the 30
million contribution, that's being
suggested or recommended, has that
all ready been approved by Rob and
PWG or it's under consideration?

MR. DIFUSCO: PGW, I would
say, has approved. While Rob
hasn't put it into a letter, the
conversations that I have had with
him, there has been a very
positive response to it, and I
would expect that will be
something that will be included in
the forthcoming letter.

CHAIRMAN SCOTT: Okay. So
the function of the Commissioners
in this process is just to what?

MR. DIFUSCO: To review, to

make recommendations, to voice objections or concerns if, you know, you disagree with something that the actuary's presenting, you know, in terms of the demographic assumptions, to raise concerns for proposals that the controllers office has done about lowering the assumed rate, you know, to better understand the funding status, et cetera. That's how I would describe the Commissions role in the annual process.

CHAIRMAN SCOTT: Thank you.

MR. DIFUSCO: Sure.

MR. BIELLI: Don, this is Fran.

I would just add that as Rob's designee, I take this judiciary duty very seriously, and I will make a recommendation to Rob based on what I heard today and based on my questions to the actuary, and I will give him my opinion on that. I cannot guarantee how he will decide I, but will give him my opinion, and I think based on my questions you have an idea what my opinions are on the contribution and the assumed rate of return.

So that's what I will be doing.

CHAIRMAN SCOTT: Thank you.

Do we need to formally accept this report, Christopher?

MR. DIFUSCO: I would suggest we do that perhaps at the next meeting after, you know, Fran, makes his recommendations as the controllers designee and there is follow-up conversation. I think generally in the past, yeah, there has been, you know, an acceptance of the final version of the report.

CHAIRMAN SCOTT: Okay. Thank you very much.

MR. DIFUSCO: Sure.

CHAIRMAN SCOTT: Are we ready to move onto item number 3 on the agenda?

MR. DIFUSCO: I believe so, and before I turn it over to Alex and Surya, just a couple things real quickly.

The fund's balance as of this morning before the markets opened was 597.55 million approximately. That includes 8,42 million in cash, so you will notice a different between what you see at the end of October and this morning.

I traded e-mails with everyone or spoken to them or their designees, in your packet, which is some related obviously to the investment management issues, you should have received a draft report on employee demographics, firm ownership, and diversity brokerage. What I would ask folks to do, and I've all ready spoke -- traded messages with Don is to review that report, make any recommendations you have about additional information you'd like to see. If you'd like the information broken down in a different way, if there is different data points that I didn't provide inadvertently that you're interested in, you know, sometime at least in at least the couple weeks prior to the next meeting, if you have feedback please call me, send me an e-mail, and I will get whatever additional information I can from the managers to make that report as useful as possible to all of you.

With that, if there is no questions about either of those items, I'll turn it over to Surya and Alex.

MR. GOLDSMITH: All right.
Thanks, Chris. Thanks everyone --

(Zoom audio disruption.)

CHAIRMAN SCOTT: You're breaking up.

MR. GOLDSMITH: Hang on. I'm going to try to log in on my phone again.

Is it still not great.

CHAIRMAN SCOTT: It's pretty good.

MR. GOLDSMITH: Maybe I'll talk slowly and softer.

Chris made a statement about, you know, the market value of the plan where we are in November, and that's a good intro into, you know, a green review --

(Background noise disruption.)

CHAIRMAN SCOTT: You broke up again.

MR. GOLDSMITH: I think there was some background noise.

Since we've last met, there has been a lot of volatility injected into the markets in September and October leading up to the election. There was some concern around possible stimulus or lack there of, timing, size of that stimulus from Congress, and also claiming virus counts and that lead to the volatility that we saw in September and certainly in October.

Bill, if you want to scroll up to the second page.

(Zoom connection disruption.)

CHAIRMAN SCOTT: We're losing you. You better call in.

MS. PISAPATI: Why don't you call in, and in the mean time maybe I can just talk about what happened in the market briefly.

MR. GOLDSMITH: Okay.

MS. PISAPATI: Sure.

As Alex was saying, there was an increase in water in September and October as you saw reflected in that one month return in the portfolio. November has been a completely different month then October. We saw an increase in volatility around the elections, around the fiscal stimulus or lack there of as Alex pointed out. Since the election, what we have seen is the news -- positive news around vaccine trials which has been a positive -- which has been seen as a positive trend for the market overall, and we've seen a shift in the market sentiment.

What we have seen is that these mega caps names that were doing really well up until September, they started to pull back and the others names started to rally, so what was a market rally up until September was very concentrated in the top names, and what we saw in October and more so in November is that the market value has broadened across the names and the market value was more reflected in the cyclical names that are expected to do well in the recovery in 2021 if the vaccine were to reach everyone and if they were to see economic recovery as we expect to see after the affective vaccination.

That also goes back to the value that -- the portfolio value that Chris talked about. We have October value at 547 and the increase of about 50 million is a reflection of the market value that we've seen in the month of November.

I see Alex is back on, so I'll just pause for a minute and see if he wants to take on from here.

MR. GOLDSMITH: Sorry, can you hear me?

MS. PISAPATI: Yes.

MR. GOLDSMITH: Why don't you finish up. I'm still kind of getting situated on the app here, sorry.

MS. PISAPATI: Okay.

So the equity has the negative performance in the month of October, but on a year to date basis what we see is that the active managers have a lag and that's also reflected in month of October. If we go down that list, PineBridge is one manager that has to stood out to us. We put them on watch lists, we are having conversations with them. The reason we added PineBridge to the line up is that the look at the universe and they divide the universe based on life cycle categorization and the build of one around that low tracking strategy. What has happened to them and other strategies is that the value as a factor just did not work over the last two and a half years. What we are seeing over the last six weeks is that the reversal of that trend. We've seen a recovery in PineBridge in the month of November, not so much in the month of October. They are based on evaluation, sentiment, and quality. Evaluation factor has finally started working for them. What we are going to do with PineBridge is see how this broadening of market impacts the returns during Q4, and if they continue to disappoint in Q4 we will come back to that and maybe recommend changing that allocation. That's something that we talked about this morning.

But we don't -- we continue
to closely monitor PineBridge
allocation within the fund.

MR. GOLDSMITH: I just want
to step in there and remind
everyone. PineBridge has been on
watch lists, you know, for this
year going to under performance
that extended prior to the
Coronavirus.

Surya went through some
background about the style, why
they were added, you know, again
they remained on watch lists. You
might also recall that they
amended their fee structure for us
earlier in 2020 to go to a base
structure similar to the pass of
managers, what they charge, what
Rhumbline and Northern Trust
charge, what the possible instead
of a out performance fee.
Obviously the out performance fee
had been kicked in, you know, that

did, um, that action by PineBridge changed their fee schedule, you know, did buy them some, you know, consideration, it did lower the impact up to their next performance.

With that being said, it continued to under perform the index.

MS. RHYNHART: Alex, sorry. It's Rebecca. Quick question on PineBridge. If what you're saying is that we want to look at Q4, I mean, it's definitely continued to underperform, so does that mean at the January meeting we will have perhaps a little bit more of a presentation on PineBridge, something we can get in advance to discuss whether we are keeping or it not?

MR. GOLDSMITH: Yeah. And that's where I was going. When we are looking at that, we will have more clarity by then to determine a course of action, you know, when we look them relative to their benchmark, we look at them relative to the world of index funds. As we consider options internally something that has appeared more attractive to us is a replacement -- if we go down this road, would be a replacement with a possible active manager and that would require, you know, an RFP.

That's something we would certainly work out with Chris well ahead of the next meeting, and discuss the options about that.

Surya, you are a member of PFM's investment committee. I know they're meeting again this afternoon, you know, one of the items on the docket for our own investment committee is a consideration of, you know, increasing active management within equities. I don't know if you want if you -- one thing I saw for example, you know, just the other day within retail sales for example. Certain sectors within retail not only have recovered to pre-pandemic levels, they've exceeded where they were, you know, therein, where as some other sectors, you know, retail sales, consumer spending, obvious things, like, entertainment and restaurants are still, well, well below.

So, I don't know if that has contributed to your views -- views about active management, but that's, I think, a consideration we would like to have, you know, in our tool belt for PineBridge next year.

MS. PISAPATI: If I may add to that. One of the things that

we are looking at the investment
company level is the disproportion
of the market.
      One way to look at it is
looking at the performance of 7500
equalate (sic) verses what the
market cap benchmark. What we've
seen recently over the last six,
eight weeks is that a 7500
equalate is finally outperforming
the market cap benchmark. That
ones that talk's about the broad
market recovery. Up until the end
of September, if you look at the
number for 7500 minus the top 5,
the year to date number was
negative. Why the headline number
for 7500 was positive, if you take
out this top 5 contributors, that
number was negative. To us, that
meant that we stay put and pass
managers just because you want to
be associated with that market cap
benchmark. And we are seeing that

we are still in that trend which is moving us toward active managers because we are seeing market broadening, we are seeing other names that 495 names and 7500 for example catching up. As we are seeing these names we are seeing these names do well, so we are willing to move to active management at this point because we think there is more picking of these names that will do well into 2021 rather than just being in the passive managers that are relying on market cap benchmark.

MR. GOLDSMITH: Thanks Surya. To answer your question, we will have more clarity and will certainly have something in advance based on the options that are open to us and an assessment of PineBridge.

In moving forward, you know, I -- a small cap, I think I heard

Surya briefly mention asset allocation. Again, for October certainly the overweight to equity was trapped from the overall.

With that being said, there is still a slight tilt towards small cap even with equities, and that was beneficial. You can see a relative small cap returns relative to large cap for the month. Within small cap as well the Rhumbline, S&P 600 allocation was a contributor. You will notice that out performed the Russell 2000 for the month.

On the year, however, the relatively higher quality S&P 600 has still underperformed the Russel 2000. That's been a detractor for the plan.

On an active manager standpoint, Copeland was slightly behind for the month. It does lag by about 3 percentage points for

the quarter. It's still in
positive territory for the last
three months, um, you know, more
recent performances lag has
weighed under year to date
performance. Similar to the S&P
600 there has been a rally
biotech, you know, less higher
quality names in the small cap
space. Copeland being a higher
quality active manager investing
in names that grow their dividend,
didn't participate in that. The
S&P 6000 doesn't participate fully
in that, so that's, you know, been
more of the more recent impact.
That's not a great concern of ours
going forward.

Surya, I don't know if you
want to add anything on Copeland
or small caps in general.

MS. PISAPATI: No. I think
you named it from that standpoint,
and also you're seeing that from a

size standpoint in the S&P 6000 of a smaller rate in Russell too. You see kindly in the smaller cap names. It's also the cyclicality of the smaller cap names, smaller cap names tend to do well when there are -- when there is expectational of economic recovery and you are seeing that flow to S&P 600 doing well, not just for the month of October but also so far in November.

MS. RHYNHART: Just to clarify them, Copeland -- we've discussed concerns before about Copeland, I guess, inception date was August 2019. It's pretty much all the different measurements. It's underperformed.

Is Copeland on watch list, or what is the next step on Copeland?

MR. GOLDSMITH: They're not. We are not looking to put them towards -- on watch list at this point. They -- if they have underperformed -- if you look at their year to date, they are underperforming by a little over, you know, 3 percent. That's the same under performance metric they've underperformed over the last three months if you look at their one quarter number. So it's been recent experience that has weighed on their trailing returns and as we were just sort of mentioning, it's been explainable within the context of their portfolio. It's not a trend that we would expect to impact them long-term in particularly as rates stay low, that's something we are projecting for the next, at least one year more likely two plus years.

So, let's say relative to something like PineBridge, it's been a little more inspected and understandable if that makes sense. It hasn't a raised many red flags for us.

The performance has been Volital certainly to the upside as well as the downside. I think we looked at them in -- I don't know the exact time period, but in the Spring the exhibited pretty strong performance to the upside before swinging back down. They are in a Volital of the equity market in small caps. They're designed to be a little less Volital in the small caps in general, and that's what we were looking for when we selected them.

MS. RHYNHART: Okay.

MR. GOLDSMITH: If that changes we will let you know, but right now no plans to add them the watch list.

On the international equity

front, similar stories, you know, general neutral asset allocations neither contributed or detractor. I think if anything the plan is slightly underweight which would have been a slight contributor on the asset allocation front.

Generally a mixed bag from active managers Acadian which had been performing quite well. Year to date, you can see their, you know, their quarter figure off by over 2 percent. They're is still outperforming on a year to date basis.

EARNEST is the one I would like to focus on. They have been on the watch list since Q1 of this year, I believe. That's an issue of, you know, they've been performing, you know, they've been selecting managers and we would expect them to do. Their portfolio if not largely out of whack. At the time, the magnitude of the out performance here was approaching if not exceeding the 10 percentage point. That was really the cause for watch list. You'll notice for the month their performance, you know, improved significantly.

Surya, you just spoke with them earlier this week and so far in November they've, you know, turned around much more so. I don't know if you want to provide those numbers?

MS. PISAPATI: Um --

MR. GOLDSMITH: I can dig them up.

MS. PISAPATI: Sure. So I actually got the performance for their portfolio as of the 16th and they have been up about 17 percent compared to 12.3 for the benchmark on a month to date basis. They have -- they were in these names

which had the cyclicality
associated with them, because they
were in the names that were --
that were benefiting from consumer
spending, that were benefiting
from consumer trends, and those
names sort off a lot during Q1 and
did not recover as much during Q2,
but those things are now
recovering which has been really
helping them from a stock
selection standpoint across
sectors.
MR. GOLDSMITH: Yeah. I
think you might recall we had
presented on them in the past.
Chris, you may even recall from
some of the calls we've held
together. Carnival Cruise Line
was a major holding that they had
and on the day of that -- it was
maybe a day following the day of
election or the first Pfizer
vaccine news, you know, Carnival

was up approaching if not exceeding 50 percent that day.

That's just an example of one thing that Surya has mentioned their portfolio was made up of other cyclical holdings like that. That's just an example of why you observe, extend the period, particularly for managers that were added within just over a year ago.

We are obviously not removing them from watch lists, but will continue to speak with them very frequently and obviously monitor where their portfolio goes in the face of the vaccine news we've seen, in the face of some new tightening of shut downs, we will see where those go as well. That's been positive development.

Bill, if you want to flip to the next page.

Here on the fixed income

portfolio, you know, modest negative return ahead of the benchmark slightly, you know, fixed income really since middle to the end of May has been flat. Government bonds outperformed in the volatility in March created a disconnect. There was a lot of opportunity we saw in the corporate and high yield spaces following this. Really ever since those sectors of bond market has slowly been recouping their losses from March.

I think that's generally reflected in the active manager performance even for the core intermediate fund when you look at we Weaver Barksdale, the MetLife Core Fund, Lazar and Garcia Hamilton, all very close to their benchmark for the month, you know, slightly ahead for the quarter I think. Weaver Barksdale may be the loan of the core fund that is just behind it's benchmark for the quarter. That's been the story for these actives as well as bond market in general since the disconnect in March.

I mentioned in the MetLife investing credit fund, if you look at that absolute return both for the month and the quater, that's an example I was talking about. The rebound and spread sectors relative to Barclay Aggregate and Sky Harbor all the way at the bottom, you know, smaller allocation. I'm not only ahead of the aggregate but in positive territory still lagging high yield. If you look at their year to date figures, still lag the most year to date whereas let's say investment great corporate's largely recovered, but we expected going forward that trend to

continue and high yield to
continue to make up, you know,
moderate ground relative to core.
That should continue the low
rates and the fixed income market
would be a tale end for that to
continue.
I think that's really the
end of our comments on
performance. Like I said, number
of active manager situation that
we are watching, no plans to make
any changes on or off watch lists
to anyone that was discussed
today, but we are watching
closely. We will talk with staff
ahead of the next meeting.
Obviously we will relay our
recommendations, and, you know,
we'll have materials ahead of time
if we deem there is action
warranted.
Other then that, I'll take
any questions.

(No response.)

CHAIRMAN SCOTT: There being no questions it looks like we have one item under old business.

Christopher, you want to comment on that?

MR. DIFUSCO: Yeah. Just briefly, Don.

Just to confirm the discussion I've had with each of the Commissioner's or their designees offline, we will hear consultant presentation again from two of the finalists at the January meeting, and they will be -- I will speak with both of them offline and ask them to build in some updates relative to asset allocation and other matters that have come up since both the last meeting and today. I will get those updated materials out to everyone, you know, with plenty of time before the January 21st meeting.

CHAIRMAN SCOTT: Thank you.

MR. DIFUSCO: Thank you.

CHAIRMAN SCOTT: Is there any new business we need to address this morning?

MR. DIFUSCO: None from me. I will open up for the Commissioner's if there is any new items, but I don't have any, Don.

CHAIRMAN SCOTT: Okay. Thank you very much.

(No response.)

CHAIRMAN SCOTT: Is there a motion for adjournment?

MS. RHYNHART: I can make a motion for adjournment.

MR. BIELLI: I'll second.

CHAIRMAN SCOTT: Motion made and passed.

Enjoy your day and the rest of week.

(At this time, the Meeting adjourned at 11:48 a.m.)

CERTIFICATE

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

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