

Sinking Fund Commission - Special Meeting
February 17, 2021

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

IN RE: Special Meeting

- - - - -
Wednesday, February 17, 2021
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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 virtually on the above date, commencing at approximately 9:37 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 Rebecca Rynhart, Controller 7 Francis Bielli, Sitting In (Pension Board Director) 8 9 ALSO PRESENT: 10 Christopher R. DiFusco, CIO, PGW 11 Bill Rubin 12 Adam Coleman, Law 13 Mary Horstmann 14 Nick Hand 15 Vanessa Jackson 16 17 18 19 20 21 22 23 24</p>	<p>1 diversity and inclusion, minority managers 2 that are researched by both firms or 3 recommended by both firms, updated asset 4 allocation projections. I have spoken with 5 a couple of you, gotten a couple of 6 questions. 7 But you know, I'm kind of happy to 8 take this however folks want. If they have 9 more questions that they need to discuss 10 amongst themselves, if there is additional 11 follow ups. It's really, you know, for the 12 three Commissioners to kind of decide. 13 MS. RYHNHART: Can I just say 14 something because I wasn't -- is it okay, 15 Chris? 16 MR. DiFUSCO: Of course. 17 MS. RYHNHART: I didn't know if you 18 had more to say to open up or something. 19 MR. DiFUSCO: No, sorry. 20 MS. RYHNHART: Okay. So, I wasn't 21 here, obviously, for the discussion last 22 time, so my apologies for that. I did get 23 updated by both Kellan before he left and 24 then Nick around some of the discussion.</p>
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<p>1 - - - 2 CHAIRMAN SCOTT: Good morning, 3 everyone. It's my pleasure to call this 4 Special Meeting of the Sinking Fund 5 Commission to order. 6 And first order of business, I'm 7 going turn it over to Christopher. 8 MR. DiFUSCO: So, we can take this, 9 you know, discussion, deliberation vote, 10 however, you know, the Commissioners and 11 such want. 12 And I guess -- Rebecca, if you 13 prefer to do this, let me know. But I 14 should mention, Donn, just for your 15 benefit, Nick will be Rebecca's designee. 16 I got the letter going forward at least for 17 the next several months. I can forward 18 that to you, but I just wanted to mention 19 that, you know, for your benefit. 20 CHAIRMAN SCOTT: Thank you. 21 MR. DiFUSCO: In terms of, you 22 know, the consultant discussion, obviously, 23 I sent out a couple weeks ago all of the 24 additional information regarding fees,</p>	<p>1 You know, I -- I had thought sort of before 2 that meeting based on months ago when we 3 heard both firms, that NEPC seemed really 4 good and PFM made a few missteps, so you 5 know, maybe they would be worth exploring. 6 But then, you know, I spoke to Nick 7 yesterday. And he said that they did badly 8 in the last presentation. And is it really 9 worth it to move to a new firm given PFM's 10 track record. And isn't everyone allowed 11 to make an error or something, you know. 12 So, I've been building a little 13 bit. I would like a little bit of maybe a 14 discussion from Fran and from Donn before 15 we talk a little bit just so I feel a 16 little bit more familiar with the overall 17 topic. 18 MR. BIELLI: Yeah. In fairness, 19 Rebecca, last meeting was the first time I 20 heard from both of the firms. 21 MS. RYHNHART: Okay. 22 MR. BIELLI: Just so you know. 23 Although, I have heard from NEPC at other 24 presentations for the Municipal Fund in the</p>

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<p style="text-align: right;">Page 6</p> <p>1 past with the same -- two of the three 2 people being the same people. So, I am 3 familiar with NEPC. 4 However, what I did see last 5 month -- and I would agree with Nick's 6 analysis in general. But more 7 specifically, which is I think what you 8 were looking for, from my perspective what 9 I mentioned last meeting was there is an 10 \$85,000 difference in fees over the life of 11 the term, which is a four-year term. There 12 is the fact that PFM is a Philadelphia 13 firm, which I think is always a positive to 14 me. All things being equal, I think that's 15 a benefit. 16 And one thing that was from an 17 investment standpoint that was concerning 18 to me at the last presentation, having 19 reviewed NEPC's presentation prior to the 20 last meeting, the written presentation, 21 they agreed that the recommended private 22 equity allocation of PFM of approximately 8 23 to 10 percent, I think it was around 8 24 percent, was good. Their concern at that</p>	<p style="text-align: right;">Page 8</p> <p>1 they changed it. I did ask that question. 2 And to me, the answer was not clear. Chris 3 and Donn, you may have a different -- you 4 may have taken something different to that. 5 But to me, it was not clear. I think 6 they -- in fact, I would characterize it as 7 they did not answer the question skillfully 8 at the meeting. And I did -- never got a 9 straight answer. And you know, I'm not shy 10 Rebecca about asking questions. 11 So, at any rate, I thought that 12 that was concerning. And given the track 13 record -- and by that I mean the returns at 14 PFM -- despite -- despite the possible 15 bad -- well, not possible, the bad 16 recommendation they gave last March -- and 17 I was familiar with that. As you know from 18 the larger fund, we were concerned about 19 what was going to happen at the beginning 20 of the pandemic. 21 And the advice that they gave -- 22 and I remember talking to Chris at the 23 time. And I thought, yeah, that was not 24 good advice. And we decided, you know, you</p>
<p style="text-align: right;">Page 7</p> <p>1 time was that the fund get moving on 2 implementing the recommendations. 3 When they did their last 4 presentation, they altered their 5 presentation and recommended a 15 percent 6 allocation to private equity. Now some of 7 that included in different categories, 8 straight private equity is 5 percent; 9 diversified credit, 7.5 percent; private 10 credit opportunities, 2.5 percent. All of 11 that being in the private equity bucket, 12 the different scenarios. I thought that 13 that was a little concerning that they 14 would double the amount of private equity 15 basically in a two and a half month period 16 from the time they gave their initial 17 presentation to the secondary presentation. 18 One of the comments that were made 19 at the last meeting was, well, the 20 Commission always has the ability to ignore 21 their recommendations. Which -- 22 MS. RYHNHART: Why did they change 23 it? 24 MR. BIELLI: They didn't say why</p>	<p style="text-align: right;">Page 9</p> <p>1 guys decided not to follow that. But in 2 the big fund, we decided not to follow a 3 similar strategy. 4 So, I get that that was concerning. 5 I understand that. But all things being 6 equal, they were my reasons that I thought 7 that sticking with PFM, at this point, 8 would be advisable. So, that's really a 9 summary of what -- how I saw the last 10 presentation and the presentation materials 11 from the last two times that they 12 presented. 13 So, I hope that gives you a little 14 insight into my thinking. 15 MS. RYHNHART: Uh-huh. No, that's 16 helpful. 17 CHAIRMAN SCOTT: Let me jump in. 18 Can you guys hear me? 19 MS. RYHNHART: Yes. Hi, Donn. 20 CHAIRMAN SCOTT: Good morning. 21 MS. RYHNHART: Good morning. 22 CHAIRMAN SCOTT: You've been on the 23 news a whole lot lately. 24 (Laughter.)</p>

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<p style="text-align: right;">Page 10</p> <p>1 MS. RYHNHART: Uhhh, good to be 2 with friends, right? 3 CHAIRMAN SCOTT: That's right. I 4 knew that Rebecca was pretty outspoken the 5 last time that she was -- the last time the 6 two firms made a presentation. So when it 7 came time to vote, I was uncomfortable 8 taking a vote at the last meeting without 9 her having an opportunity to officially 10 state her position. 11 Now since that time, Christopher 12 and I have had a whole lot of discussion 13 about some things that are important from 14 my perspective. One was diversity and 15 inclusion, and the other was price. 16 Initially, I thought PFM was 17 extremely inflexible on price, somewhat 18 arrogant, as a matter of fact. But over 19 time, it appeared that they became far more 20 aggressive from a pricing standpoint. I 21 didn't understand that. But I felt that 22 based on the fact that they are a local 23 firm -- and I think that has to be one of 24 the criteria we take into consideration.</p>	<p style="text-align: right;">Page 12</p> <p>1 is moving on the investment side to this 2 discretionary model. Just -- I just have 3 wondered, do they want us if we stay with a 4 strong board model, which I believe we are 5 staying with? I just wanted to get a 6 sense. 7 Maybe they changed. Maybe it was 8 the arrogance I was feeling in the past 9 about, like, their business model and the 10 way they approached us. And maybe that's 11 what I was feeling. And maybe they have 12 had a, you know, an epiphany because, you 13 know, they might lose the business. You 14 know, I don't know. But I just wanted to 15 raise that for a discussion point. 16 MR. BIELLI: I think that's a great 17 question, Rebecca. Because having lived in 18 San Diego for seven years a while ago, I 19 kind of keep up to date on what's going on 20 there. And for a period of time their 21 pension fund, their municipal pension fund 22 is actually a county-wide pension fund, 23 was -- was moved to an OCIO model. 24 And at the time they did that, I</p>
<p style="text-align: right;">Page 11</p> <p>1 And the fact that their price now appears 2 to be far more advantageous for the Sinking 3 Fund. And although -- and Christopher and 4 I talked about this, I think the other 5 firm's diversity focus is slightly more 6 aggressive and appealing to me. I think if 7 we can put some time of checkpoint where we 8 look at them on a regular basis, you know, 9 annually, we look at where they are, I can 10 certainly support PFM. 11 MS. RYHNHART: So, do you think 12 that, you know, PFM is moving to this model 13 where they manage for most of their clients 14 now, that they actually make the decisions 15 rather than the boards? 16 Do you get the sense and did you 17 get the sense from the last meeting that 18 they value -- and this might seem like a 19 strange question, but I just started to 20 wonder with them just on this, do they 21 value this business? 22 Because they keep -- like over the 23 last year so they have said multiple times 24 that we are the anomaly. That their firm</p>	<p style="text-align: right;">Page 13</p> <p>1 thought it was problematic because the OCIO 2 is run by investment folks. And the people 3 that they like to give or they like to 4 recommend manage the money are their -- 5 well, you are in the business -- they are 6 their friends in the investment business. 7 MS. RYHNHART: Right. 8 MR. BIELLI: And it's the old boy 9 network. And we are strongly against that. 10 And by we, I mean the City. You see the 11 municipal fund, how strong we push for 12 diversity. How strong we push -- 13 MS. RYHNHART: Absolutely. 14 MR. BIELLI: -- for the 15 independence of investment managers. And I 16 have talked to Rob. I intend to continue 17 that here, which -- which I knew you and 18 Donn have already done. 19 So, I think the OCIO, they are 20 very, very aware, I believe, that Chris, 21 that the Sinking Fund, that the City in 22 general is not a fan of the OCIO model. I 23 think they -- that has been made loud and 24 clear to them by Chris, and by you and Donn</p>

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<p style="text-align: right;">Page 14</p> <p>1 in previous meetings. And I think they 2 have -- you know, they have seen the error 3 of their ways, right? They have seen the 4 error of their ways. 5 MS. RYHNHART: They've repented, 6 yeah. 7 MR. BIELLI: I think they 8 understand not to bring that up again not 9 going forward, so. 10 And certainly as a strong -- as one 11 third of a member of this strong board, I 12 would not only not allow that to happen if 13 I could help it, but certainly push them 14 like we have pushed other investment firms 15 in the local firm to embrace diversity to a 16 greater extent. And we have had success in 17 that area. And that's something that's 18 very, very important to us. 19 So, I think we can do that. I 20 think the OCIO, they understand that model, 21 you know, may work for some people. But it 22 doesn't really work for public pension 23 funds. And I think San Diego is a great 24 case study in why it doesn't work. In</p>	<p style="text-align: right;">Page 16</p> <p>1 that -- I just wonder if they are really 2 the best fit. But at the same time, I 3 don't feel the necessity to move to another 4 firm just because they're not -- like, I'm 5 not enthralled by what they are, you know 6 what I mean. 7 MR. DiFUSCO: I -- Donn and I have 8 talked a lot, you know, Rebecca around 9 this, so have Fran and I. You know, I 10 think your concerns as far back as March or 11 everyone's concerns is completely valid. 12 I've had numerous conversations, 13 particularly with Marc, you know, who is 14 the partner, to reiterate Fran's point that 15 the OCIO model is not something that -- 16 forget me, forget staff, but the 17 Commissioner or the City is interested in. 18 I believe they do have the 19 infrastructure. What I made clear to Marc, 20 and then by extension Surya and Alex is, 21 they need to make sure that when they come 22 to us with advice, that it's geared 23 toward -- like, they clearly have the 24 infrastructure, the intellect. They build</p>
<p style="text-align: right;">Page 15</p> <p>1 fact, the individual who was acting as the 2 manager, I guess, of the OCIO program for 3 San Diego, eventually came under 4 investigation for giving investment 5 business to, you know, individuals that he 6 knew. So, I think it's a flawed product. 7 And I think they know not to bring it to 8 this city going forward. 9 MS. RYHNHART: Okay. I am just 10 going to say, since I've been on this 11 board, though, they've brought it up 12 numerous times. And so, I am just saying 13 that they have said that the majority of 14 their public pension clients are moving to 15 this. And I don't want to. So, don't get 16 me wrong, I don't want to. 17 My question is more along, do they 18 have a robust and -- infrastructure for 19 this model and do they care about it? And 20 you know, it doesn't have to be answered on 21 like -- I don't have anything against 22 staying with PFM. I just -- I feel like 23 they have been a little bit strange. You 24 know -- and so, I feel like the fact</p>	<p style="text-align: right;">Page 17</p> <p>1 out their team. They are hiring more 2 people. But they need to understand that 3 when they come in as they did in March, 4 that that's going to throw off a Board like 5 ours and the staff because that is 6 something that may work for either an OCIO 7 model or Boards that can gather or want to 8 gather on a daily or weekly basis and 9 quickly make moves. 10 That's not us, right? I mean, 11 we're designed in theory. This plan should 12 survive into perpetuity or for as long, you 13 know, the gas -- you know, so. I believe 14 they have been -- as Fran said, they have 15 been sufficiently humbled -- 16 MS. RYHNHART: Okay. 17 MR. DiFUSCO: -- if that's the 18 right word in that regard. 19 To Donn's point, which is equally 20 important on diversity and inclusion, 21 obviously, we have taken more steps as a 22 commission and as a staff. You know, we 23 started compiling data which is identical 24 to what the Municipal Fund does in terms of</p>

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<p>1 employment demographics, diversity 2 brokerage, the minority ownership. They 3 know that it's a focus. They know -- I 4 will say and I said this to Donn, one area 5 where I think PFM has been very helpful, 6 and I would single Alex out in this regard, 7 is on the brokerage side. That was not 8 something that is part of this Commission, 9 I think, before you or Donn, you know, 10 joined. 11 I feel as though Alex has gone 12 really above and beyond probably what they 13 expected, having sit downs, having meeting 14 with brokers. Even if they are brokers 15 that maybe won't get business from us 16 because of the type of investments, he's 17 connected them with other firms either 18 locally or nationally. 19 MS. RYHNHART: Great. 20 MR. DiFUSCO: So, I think they do 21 have folks there who embrace this. But to 22 Donn's point, I do think they -- and to 23 your point and Fran's, I think there are 24 things we can do. We can certainly check</p>	<p>1 I think that's something we should do. And 2 if we get to year one and we are not 3 satisfied with the progress, then, you 4 know, you can reissue the RFP and we can go 5 from there. We are not bound for four 6 years. 7 MS. RYHNHART: Okay. I mean, I'm 8 fine with keeping them then. 9 MR. DiFUSCO: Okay. I just think 10 for the record, someone -- not to be overly 11 lawyerly, but we do have Adam here. 12 Someone should just make the motion and 13 second it. If we can do that. 14 MS. RYHNHART: "I'm fine" doesn't 15 count? 16 (Laughter.) 17 MR. BIELLI: I will make a motion 18 to retain PFM. 19 CHAIRMAN SCOTT: Is there a second? 20 I second it. 21 MS. RYHNHART: Okay. 22 CHAIRMAN SCOTT: The motion has 23 been made and properly seconded. All those 24 in favor, say aye.</p>
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<p>1 in with them on a, you know, semi-annual or 2 annual basis. 3 What do year-end demographics do? 4 How many more meetings have you taken with 5 minority managers? You know, what have you 6 done in terms of your recent hiring in 7 Philadelphia, your mentorship programs. 8 And I may be leaving things out. I'm just 9 spit-balling. 10 But I think they've been -- I think 11 they get it. 12 MS. RYHNHART: Okay. 13 MR. DiFUSCO: I think they -- you 14 know, they want the business. I have heard 15 from them several times. And I would be 16 very disappointed, to put it mildly, if we 17 saw that kind of behavior/advice going 18 forward. 19 MS. RYHNHART: Okay. 20 MR. BIELLI: And in fairness, Chris 21 and Rebecca and Donn, if we saw that type 22 of behavior, they would not last the term 23 of the contract. We would -- I mean, 24 right? We would keep a close eye on that.</p>	<p>1 (Ayes.) 2 CHAIRMAN SCOTT: The motion is 3 passed. 4 MS. RYHNHART: Thanks. 5 MR. DiFUSCO: Thanks. 6 There is no other business on the 7 Agenda. The next meeting, I believe, is 8 March 17, the Regular Meeting. 9 I will note the transition is 10 nearly complete with US Bank. There is 11 only a couple of outstanding securities. 12 That's gone really, really well. As of 13 last night, the Fund was up to around 14 647/648 million with about 18 or 19 million 15 in cash. So you know, close to ten months' 16 worth of benefits. So you know, things 17 are -- at least for now -- moving in a 18 positive direction with the markets. 19 MS. RYHNHART: Great. Okay. 20 Thanks so much. Thanks for your 21 thoroughness and due diligence around the 22 topic. 23 MR. DiFUSCO: No. It's an 24 important topic. And you know, I am glad</p>

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1 we took the time, the three of you and Nick
2 and staff and everyone, took the time that
3 they did. So you know, I thank the three
4 of you.
5 CHAIRMAN SCOTT: Thank you.
6 MS. RYHNHART: Thanks, bye-bye.
7 (Special Meeting adjourned at 9:56
8 a.m.)
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CERTIFICATION

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