CITY OF PHILADELPHIA

SINKING FUND COMMISSION

IN RE: Quarterly Meeting

- - - - -

Wednesday, January 20, 2021

- - - - -

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 10:00 a.m., pursuant to the State of Pennsylvania General Court Rules.

- - -

STREHLOW & ASSOCIATES
FULL SERVICE COURT REPORTING AGENCY
54 FRIENDS LANE, SUITE 116
NEWTOWN, PENNSYLVANIA 18940
(215) 504-4622
SERVING NJ, PA, NY & DE

e5719944-7e5d-452a-a26f-5b233a0c74b5

A P P E A R A N C E S

COMMISSION MEMBERS:
Donn Scott, Chairman
Kellan White, Controller's Office
Francis Bielli, Sitting In
(Pension Board Director)

ALSO PRESENT:
Christopher R. DiFusco, CIO, PGW
Bill Rubin
Adam Coleman
Nick Hand
Vanessa Jackson
Dan Leonard
NEPC Representatives
PFM Representatives

- - -

CHAIRMAN SCOTT: Good morning, everyone.

It's my pleasure to call this meeting of the Sinking Fund Commission meeting to order. The first matter on our Agenda this morning is the approval of the November 2020 minutes.

Is there a motion for approval.

MR. WHITE: Motion.

CHAIRMAN SCOTT: Is there a second.

MR. BIELLI: Yes, second.

CHAIRMAN SCOTT: Motion has been made and properly seconded. All those in favor, say aye.

(Ayes.)

CHAIRMAN SCOTT: All right. The ayes have it.

The second order of business is the Consultant Finalist Presentations. And I am going to turn that over to Christopher.

MR. DiFUSCO: Thanks, Donn.

I just want to make a couple quick comments. I know in the interest of time

and some other things going on this morning, trying to keep the meeting moving along. You will recall that at the September meeting, we heard from three candidates which have since -- consulting candidates which have since been whittled down to two -- NEPC and PFM. Both due to some outstanding questions for both firms as well as a change in the Finance Director's designee, it's decided we would bring these two firms back.

I just wanted to comment from my -- you know, my perspective. I do think that while both firms gave strong presentations, their updated presentations do leave some open -- some open questions.

Just as a couple -- just as an example, you know, all of you are aware that the new assumed rate of return, you know, will be dropping to 7 percent starting the next fiscal year in line with the Finance Director's letter that you received a few weeks ago. Both firms, nevertheless, seemed to be -- if you look

at page 13 of NEPC and page 7 of PFM, both seemed to be talking about potentially even higher amount of alternative assets than have previously been approved. So, PFM makes reference to perhaps going as high as 10 percent. NEPC, at least at 7.3, looks like they are talking about going as high as 15 percent, which is very dramatic.

You will also note for NEPC, they are talking about a very, very significant reduction in core fixed income, which at least on the surface seems a little bit contrary to reducing the assumed rate of return. There is also some things in the PFM presentation I think that are worth exploring as relates to their investment committee and whether or not, you know, they continue to rely more on OCIO, you know, model as opposed to, you know, tactically or granulary or specifically designed services for us.

So, those are just a couple things I wanted to mention. I know I talked to all of you at various points offline. The

e5719944-7e5d-452a-a26f-5b233a0c74b5

fees are now, you know, I assume final. PFM is now down to 190,000. NEPC is at 200,000 with slight increases in years two through four.

So, happy to take questions or wait till after the presentations. We told them both to be prepared, you know, for 20 minutes obviously subject to your discretion if you have more questions or want to go longer.

CHAIRMAN SCOTT: Yeah. PFM, did you -- you said their fee is now down to 190?

MR. DiFUSCO: Correct.

CHAIRMAN SCOTT: What was it prior? What was it at the last presentation?

MR. DiFUSCO: 220 after a reduction in the beginning from 250. So, they have come down from their initial presentation or their initial proposal was 250 at their presentations in September. They were at 220. I know there was some concern about that, as well as the answer they gave surrounding their fee. They have since

dropped to 190.

CHAIRMAN SCOTT: Thank you.

MR. DiFUSCO: Sure.

MR. BIELLI: Chris, just -- did the PFM previous presentation include the possible tactical investment of up to 10 percent in private equity? Or is that a new addition to the current presentation from the previous one?

MR. DiFUSCO: That's a good question. I will --

MR. BIELLI: You don't have to answer that now.

MR. DiFUSCO: I will pull it while their -- NEPC and them are speaking and I will confirm. Offhand, I don't recall.

To your point, though, the NEPC 15 percent column was not present in their prior slides. We've gone back and viewed those.

MR. BIELLI: I wanted to point out for Donn and Kellan's benefit is that the 15 percent is -- is new. That did not appear in the NEPC previous presentation.

I'm not sure how from September to three months later the recommendation goes from 7.5 percent to 15 percent especially with the assumed rate being lowered to 7 percent. Why would the fund want to incur additional risk when the risk profile is being reduced by lowering the assumed rate of return?

CHAIRMAN SCOTT: Yeah.

MR. BIELLI: I just wanted to point that out before we heard from them. And kind of keep that in mind, and maybe we can ask them that question. That's -- and they want to reduce fixed income, core fixed income, by almost 50 percent. So from 30 percent down close to 15 percent.

So, it's big -- they're big differences. Big shifts. Just to be sure that that's what the Board wants. You know, they are substantial shifts.

MR. WHITE: Do we know why they modeled for 7.3 instead of 7 percent?

MR. DiFUSCO: I don't. So, I think that's a little bit confusing, too, on that

page, Kellan. I think it's page 13. So, they have -- the middle column talks about getting us another 1.1 percent of return. And then the far right column says 7.3. Both firms were initially told there was a strong possibility of moving to 7 percent, and they should model for that. And then later, probably right around the time the presentations came out, I confirmed for both PFM and NEPC's benefit starting next fiscal year, it would be at 7.

So I did -- they did not -- they did not indicate why in either presentation guide there was still any references to the -- to the higher assumed rate.

If there's no additional questions, Fran, I will pull the other presentation. But we can -- I think we can invite them in, Bill, the first presenters.

MR. RUBIN: They are now admitted.

--(NEPC Presenters join Video)--

MR. DiFUSCO: Good morning.

(Good morning.)

MR. DiFUSCO: I see we have

e5719944-7e5d-452a-a26f-5b233a0c74b5

Kristin, Kevin and Margaret in the room. Thanks for joining us this morning. Your presentation is up on the screen. And Bill Rubin will flip through it at your direction.

As discussed in the last twenty-four hours, be prepared to keep your remarks to twenty minutes with Q&A. The Commissioners will, obviously, go longer if they like. Your main audience: Donn Scott, the Chair; Kellan White, the First Deputy Controller; and Fran Bielli, the Pension Board's Executive Director and the Finance Department's designee to the Board.

You have other folks in the room -- PGW, Controller staff, et cetera. I'll turn the floor over to you. And Bill or myself will try to give you a five-minute warning when you are, you know, running up against time.

MS. BELMONDO: Wonderful. Well, thank you, Chris. Really appreciate that.

You can see me, correct?

MR. DiFUSCO: Yes.

MS. BELMONDO: Great. All right.

If you just flip to the first page, I'm going to start with introductions here first. I hope everybody had a great holiday and Happy New Year to all. You know, I know we have very limited time. So, I'll be quick with my intros.

Again, I'm Margaret Belmondo, a partner on the public fund team. I have been at NEPC for four years now. I'm local to you, so I'm here in Bryn Mawr. And so, a very easy train ride to you. I had actually worked at PFM prior to NEPC. It was a great firm, but I hope you hear today how we differentiate ourselves from our competition.

I would be your proposed lead consultant. And what that means is, I would be your day-to-day person. You would see me in person, whenever that is, at every meeting. We like to put two consultants on -- at least two consultants on every relationship. And so, with me is Kristin Finney-Cooke. She is a senior

consultant also on the public fund team. Been at NEPC for over ten years. She's located in Chicago. She came from Mercer where she was principal. And she would be your proposed backup. We would work very closely together with this relationship if we are fortunate enough to work with you.

And then lastly, Kevin Leonard, a partner of the firm, he oversees our entire public fund practice group. Been with NEPC over thirteen years. And he came from Segal.

So, you will notice that the three of us came from different consulting firms. So, I think NEPC does strive to be the consultant of choice for clients, but also for employees. And in fact, in 2020, we made a lot of hires. And we hired five really strong research analysts from other consulting firms. So, I think that just speaks to, you know, our culture and how we treat our employees.

So the Agenda today, Kevin Leonard is going to cover just really quickly a

couple minutes on the firm. You should have a lot of that information already in the RFP. Kristin Finney-Cooke is going to talk through some of our diversity and equity inclusion efforts that we made at NEPC. And I will walk through the portfolio, some initial thoughts that we have on hitting that actuarial assumption, which is always a big question.

So, Kevin, I will turn it over to you.

MR. LEONARD: Great. Thank you, Margaret. And good morning, all. We appreciate the opportunity to present today.

So here on page 4, just a brief overview of who is NEPC. I think the key takeaway is that NEPC is an independently, privately owned investment consulting firm. All that we do is investment consulting. We don't manage money. We don't have our own products. We are not a broker-dealer. We 100 percent focus on our clients and investment consulting.

e5719944-7e5d-452a-a26f-5b233a0c74b5

Today we are just over 1.2 trillion in assets under advisement. We have over 320 employees spread across eight regional offices, headquartered in Boston. As I said, we are privately held. Today we have 47 partners. Margaret is one of our new three partners, was just elected to the firm. I think the key takeaway from our partnership is your true equity owner. So, you get a base, a bonus and you are given shares into the firm on an annual basis. You are not buying back in. It's true equity ownership.

A hundred percent of our revenue comes from advisory and discretionary investment consulting services. And on the right side of this page, you can see by design, we are very diverse organization. Although public funds, you can see, we have 70 public fund clients which account for 55 percent of the assets of the organization.

If I can ask you to turn to page 5. You can see, we have a dedicated team of 37 professionals on the public fund team, so

focusing a hundred percent on the public funds. We have been working with public funds since the firm inception in 1986. I mentioned over 55 percent of the firm's assets is public funds. So, it's really who we are as an organization.

There are a lot of consulting firms over the last several years that have made a choice to get out of public funds. We are not. We have no plans. We want to continue to grow that as on overall piece of who we are. We have 70 clients on our team with over 630 billion in assets. And you will see on the right side, just a representative public fund list. We work with very large state plans down to small municipalities.

And then maybe finally on page 6, you know, if you think about NEPC -- when I started at NEPC in a final's presentation like this, I would talk about a small boutique organization. Today I certainly can't say that 1.3 trillion is a small organization. We are one of the largest

investment consulting firms in the business. But the way we have organized our firm is we have organized it to have small boutique teams focusing on clients. As Margaret mentioned, the three of us sit on the public fund team.

So what do you get from NEPC? You are going to get that small consulting feel from the team, the client servicing, the attention, the dedication, and then the support of a very large dedicated research team.

Our research team is a hundred percent focused on research. The consulting team is a hundred percent focused on working with our consultants. Now with that said, if we have the fortunate ability to work with you all, your staff will have access to our senior researchers. So, we do bring them into the relationship.

But we want you to know at NEPC, research is a career path. So Margaret and I and Kristin, yes, we do some research,

but we have dedicated people that are just focused on that. Also, our size allows us to negotiate very favorable fees on behalf of your client. So you know, I think that's something you should expect from your consulting firm to be working on your behalf to get not only the best investment managers but also at the lowest fees.

So with that, I will stop and pause and see if there are any questions on anything I might have mentioned.

MR. BIELLI: Kevin, it's Fran.

How are you doing?

MR. LEONARD: I'm doing great, thanks. How are you?

MR. BIELLI: Good, good, thanks.

Just quickly. You mentioned NEPC is not getting out of serving as consultant for public pension funds, but that other firms are.

Why is that? I mean, why is that occurring? Why is that trend happening; do you think?

MR. LEONARD: I think a couple of

e5719944-7e5d-452a-a26f-5b233a0c74b5

things. Public funds have become litigious. That's not meant to be a wide brush. There have been examples and there have been firms that have decided it's become litigious. In the servicing model in the public fund world, you have to be willing to have a very broad servicing model where you have the dedicated research people and being able to put senior, well-rounded individuals in front of public found clients. And some consulting firms, are not scaled that way. We are.

MR. BIELLI: Okay. And does the increase in OCIO models have anything to do with that?

MR. LEONARD: I don't think so. I think there is firms that certainly are not going to have that capability. And if you don't have that capability, that would make it harder to grow your business.

As a head of the public fund team, I don't see OCIO wiping out the non-discretionary model in public funds. I think in the endowment world and the

corporate world, we are seeing much more traction. In the public fund world, maybe on the smaller fund size. But I don't see OCIO being a big piece of public defined benefit plans. But some firms might not have that capability.

MR. BIELLI: Thanks.

MR. LEONARD: You're welcome.

MS. BELMONDO: Okay. We will turn it over to Kristin. If you want to turn to the following page on Diversity and Inclusion.

Kristin, are you there?

MS. FINNEY-COOKE: Yes. Can you all hear me?

MS. BELMONDO: Yes.

MS. FINNEY-COOKE: Perfect.

Good morning. Appreciate being here. So, I want to just talk a little bit about our diversity and inclusion focus that we have at NEPC. We really are trying to have a holistic approach. And that really spans a number of areas within our organization. But again, leadership is at

the top of the pinnacle as it relates to ensuring that we are leading by example.

And so, what you can see -- and I will just spend a moment here. We have had, as Kevin mentioned, a few additional partners that have been brought into the partnership. So, we now have about 30 percent of women that are in the partnership, which is we feel a goal that we had had. We really signed an agreement with the Girl Scouts of America to do that by 2025. And we are ahead of our goal, so we are very excited about that.

You also see that this is gone through to our management group, as well. And then, we have two executives on our -- which are also partners on our executive committee. So again, really focused on ensuring that we have different perspectives, different backgrounds and different thoughts sitting at the table from the top down -- top up or top down, however you want to look at it, to ensure we are guiding our organization in a manner

that would be very inclusive on opportunities for all types of individuals.

If you can turn to the next page, page 9, I want to just talk about how we are doing that. So, we have a group called the Diversity and Inclusion Advisory Committee or a board, as you see, sitting there in the middle in the green. Essentially, there are a lot of tentacles that go from that. On the bottom here, you can see that you have the diversity, racial and ethnic cultural diversity component, the gender diversity and then investment manager, which we call the Diversity Management Committee.

And so, those three prongs are really how we attack three components when we are thinking about a holistic approach. That's going to be the workplace, the workforce as well as the marketplace.

So, the marketplace is going to be external facing. That's what the D&C as relates to the relationship we have with the industry, with investment managers and

e5719944-7e5d-452a-a26f-5b233a0c74b5

how we gain access or grant them access to our -- to our process and to our clients. And then, the workforce and workplace are incredibly important because that is where we do continuing education. We are making sure that we are hiring people that are reflective of the community in which we serve as well as ensuring that we are addressing any sort of unconscious biases.

So again, a holistic approach to ensure that we are dealing both with the inside of our firm as well as the external relationships that we have. And as you can see from this slide, there are a lot of tentacles.

I will just touch very briefly, because on the next slide, which really just talks about the work that our diversity manager group is doing. And again, just to high level that or top line that, we really are focused on making sure we have additional transparency, additional responsiveness to managers, looking at ensuring we are meeting with more managers

so that we have a broader footprint with diverse managers and the value that they bring to our clients as well as increasing the number of our targeted managers that are on our focus placement list. And so that's -- those are some high level goals that are diverse manager committee is working on.

Unless there are any questions, I will leave it here.

MS. BELMONDO: Are there any questions from anybody before I move on? No? Okay, great. Thank you for jumping to page 12.

So you know, we took a look at your portfolio. We did see since the last time we spoke, your funded ratio did increase from 73 percent to about 75 percent. So, congrats. Those small improvements over time are showing that you are headed towards the direction of being around 80 percent funded, but more closer to, you know, in 2030.

With the 7.3 actuarial assumption,

we are going to see some implications to try and hit that goal. I know Chris has told me you have been having discussions about reducing that to 7 percent. So, we will talk through some of that, as well.

You know, we do see that your cash flow has been consistently negative now since 2013. And that trend looks like it will continue before it starts to improve again. So, we are going to talk through maybe some strategies that can help fulfill some of that gap.

So if you jump to page 13, I am going to spend probably a bigger portion of my time here. So, we took a look at your portfolio. And what we did here was we modeled the expected return and risk profile of your current allocation. But before I go through the numbers here, what the means -- what does that mean when I say "modeling"?

So in the appendix, and you can look through that at your time. But we -- our research has 58 people that are working

on really building out asset class assumptions. And we have them for 70 different asset classes. And we use evaluation model. It's built -- it's based off of building block approach. And these models reflect current and forecasted market data to help us project over the next ten years, and then over the next 30 years what to expect from a return and risk perspective.

So, the ten-year number is a really strategic number. Whereas, the thirty-year number is more of actuarial inputs and sort of long term planning. So when you look at the current allocation column here, you will notice that I have modeled out what your current allocation is even though your target is 65/35 mix today between equities and bonds. I have looked at your flash reports month over month. And it does look like you have a bit of an overweight in equities, and that's fine.

So just wanted to say, if you stay the course today in your current portfolio,

e5719944-7e5d-452a-a26f-5b233a0c74b5

what would we expect out of the portfolio using our assumptions? And you can see the expected return on the bottom of the dark blue bottom there. It says ten years of 4.9 percent. And then on -- for the thirty-year perspective, 5.7 percent.

Now you know, obviously, that's not hitting your 7.3. It's not hitting the 7 percent. And one thing to consider is that we don't incorporate active alpha. So, this is from a beta perspective. Meaning, if you were just invested in indexes across the board passively, this is what to expect. We would hope that some of the active management would add on some of that return. But we would say anywhere from 20 to 50 basis points. So even if you tack on another 20 to 50 basis points, you are still not hitting that return.

Now from a sample mix in the middle column here, here is where we added in some alternative. We saw that you added 7 and a half percent alternatives, which we think is great. You need to look outside other

traditional markets to really find some return. So, we added -- again, this is just, you know, an initial shot at it. We added about 5 percent to private equity and 2 and a half percent to private credit. That would be your 7 and a half to alternatives.

You see we added -- we increased the equities to 70 percent. So you know, we -- even though equity markets have done really well to date, the equity risk premium or the difference between what we are expecting out of equities and treasury bonds is pretty wide right now. As you know, interest rates are so low. You are not getting much out of the traditional fixed income market. So, we still find it attractive to be in equities relative to fixed. So, you can see an increase there in equities overall.

Within fixed income here, you will notice we have a little bit of a different type of allocation than your current mix. You will notice, we don't have anything

assigned to really core bonds. We disaggregated or separated the safe haven assets to the diversified credit. The diversified credit is the return seeking component.

And why did we do this? So when you think about core bonds, and you have a lot of core bonds in your portfolio today, those core bonds include investment grade credit. They include CMBS, RMBS, all different types of credit that in times of market stress, those actually sell off just like equities do. So, we separate safe haven to return seeking.

The safe haven, which is that 13 percent -- again, we would want to size that with you. That's not set in stone. But that really is the goal to provide liquidity and safety. You know, and whereas, the return seeking component or diversified credit is the income and the yield, right? So, we would talk through how we would build out those two portfolios or those two separate sleeves. But we

think it's important to separate them, to align them with their goals. And it's clear as to how they are going to perform and it's easier to benchmark.

You will also notice this addition to private credit. Now we would be -- this is a liquid just like private equity is a liquid. However, you know, private credit actually offers, you know, income. And there is a way -- you know, these are private loans where you are getting that fixed interest rates back to you frequently. So, this is a way to help fund that cash flow gap. So, that's something that we would want to talk to you about.

So when you look at the results here, you do see an increase of expected return over ten years at 6 percent, and expected return over thirty years at 6.7. It does increase the risk, right, so you can see that in the standard deviation. But from a sharp or risk adjusted return, it is higher. So, you are getting more return for the level of risk that you are

e5719944-7e5d-452a-a26f-5b233a0c74b5

taking in this type of strategy.

Now, I modeled here -- if you needed to hit -- you wanted to see that 7.3 percent expected return over three years, what would you have to do? This is not a recommendation. I'm just pointing out what would need -- what would be needed. And I think it goes to show that you are doing the right thing by reducing your assumption from 7.3 to 7. You can see we've added a lot of private equity, about 15 percent private equity, you know, increasing private credit, adding some real estate. Which we could add some real estate currently, but this is really upping your private markets to really get that return.

So you know, again, these aren't recommendations we are making today. It's just really to point out what to expect from a modeling perspective, what we are thinking about with your portfolio. But a lot of work that would still need to be done to kind of walk through this.

So, I am going to stop there. I just said a lot. And I want to see if there is any questions on what I just presented?

MR. BIELLI: Margaret, I have a question. It's Fran.

In the September presentation, I believe on Slide 12 in the September presentation, you said that 7.5 percent was fine as the goal for private equity. And that we should start the pacing to get to that point gradually.

Aside from the -- and again, this 15 percent private equity that you are pointing out, is based on the 7.3 percent assumed rate of return. I assume for 7 percent, maybe 15 becomes 13 or 12. I don't know, whatever.

But what happened between September and now to double the percentage of private equity recommendation?

MS. BELMONDO: No. Oh, okay.

I would say we -- this is really just to show if you wanted to hit that 7.3.

I think what we talked about last time is this doesn't incorporate any alpha potential, as well. So hitting -- if you wanted to add a 7 and a half -- if you wanted to hit a 7 and a half percent, we would say the 6.7 is actually a good number if you wanted to get to that 7.3 eventually because you want to add some of that alpha potential from the active component. And the active component can come from traditional. It can also come from private -- from the private markets.

So I would say that, you know, this 15 percent wouldn't be sort of a recommendation. It's more of, you know, where you have to look in order to get some of that additional return.

And the other thing is, our expectations have come down since the last time we spoke. So, the markets have been doing so well. And we -- I mention these assumptions that we come up with. We come up with them on a quarterly basis. So, our assumptions are now through 12/31. And

even through 12/31, they have come down even further.

So, it's actually even harder now to even -- to hit those returns. We wouldn't say to rerun an asset allocation every quarter either because we think it's more important to do that on an annual basis, think strategically sort of longer term.

But yeah, the assumptions have come down. But we would say, you know, we can look anywhere in between here, whether it's 5 percent private equity or 7 percent. We would want to run a liquidity study. So, what does that mean if you are going to type up all those assets? There are a lot of different tools we would run with you to ensure you feel comfortable with that.

MR. BIELLI: For the credit, whether it's diversified credit or private credit, do any of those constitute distressed debt vehicles such as KKR? Apollo? Avenue?

MS. BELMONDO: Yeah, yeah. Yeah,

e5719944-7e5d-452a-a26f-5b233a0c74b5

you know your names. That's great. Yeah. So, that would actually fall --

MR. BIELLI: That's not necessarily a good thing, by the way.

MS. BELMONDO: That would fall under the private credit component. So, the way we would build out a private credit, we would start with direct lending first.

We think it's important to start more -- the direct lending is sort of the core component that we would build first. It is not going to hit the ball out of the park like the KKRs and the distressed credit. That adds a little bit of more volatility. Those are more niched strategies. But over time, I would say maybe a year or two, we would start building out and adding on those niche strategies.

It would be those names. We have looked at those names. And we underwrite these names. We provide full lengthy due diligence write up on the names to ensure

you understand that the risks that you are getting into, into these types of funds. But yes, that would fall in that private credit component.

MR. BIELLI: But that's not an initial category that you would be looking at or recommending?

MS. BELMONDO: Correct.

MR. BIELLI: That's fine.

MS. BELMONDO: Yeah.

MR. BIELLI: That's fine. All right. I will just tell you that I think in the City overall, our experience in those vehicles has not been a positive one. That's why I asked that question.

MS. BELMONDO: Okay.

MR. BIELLI: The -- one other thing. You mentioned somewhere in here, I am not sure it's here on this page or another page I read, the recommendation of looking at moving more to active from passive.

Would -- would that -- what -- would that do to our fees? I guess the --

MS. BELMONDO: Yeah. That's really important. I am glad you brought that up.

Number one, this risk safe haven component within fixed income, that would actually all be passive. So, we would recommend this would be sort of a treasury, TIPS. You can capture that from a beta perspective. So, you are actually lowering your fees within some of the fixed income component.

And then other areas -- so, here is what we do from an active and passive. And if you don't mind jumping to page 17, because I think this shows just a nice picture of what we do when it comes to, should we apply active management in these different asset classes. We do a two-test sort of approach.

We want to apply active management in asset classes that, number, one there is a big spread between best and worst managers. And you can see that on the bottom right. So, is there a big spread between those best and worst? If there

are, then that's green. That's a go. And then if the median manager outperforms the index net of fees, then that's the second test. It would be green.

So on the top right you will see, US large cap, it fails on both ends. So, you have PineBridge in your large cap. That would be an area where we would say, you can go to passive and save fees.

Mid cap, you know, it passes one. It fails the other. You can go -- you can go active, but you might as well save on some fees.

Where we would say you want -- you do want to be active because there is alpha potential above and beyond the fees would be in small cap, emerging markets, small cap, maybe some global equity. So, you can see where those tests fall.

And the idea here is to get you the best return, right, net of fees. So in some capacity, your fees could come down. In other capacities, your fees could actually increase, especially in private

e5719944-7e5d-452a-a26f-5b233a0c74b5

markets. If we are adding 7 and a half percent to private markets, over time those fees are going to go up. But we can keep a close eye, make sure it's fully transparent as to what these fees are. And you feel comfortable moving forward. If -- if these fees are too much, we can always adjust.

But again, the idea here is to get you the most return for the fees that you are paying.

MR. BIELLI: And I have just one final question concerning your asset allocation recommendation.

One of the slides -- and I don't remember what page it was -- you put red, yellow or green dots next to.

MS. BELMONDO: That's 14.

MR. BIELLI: And I don't know, Bill, if you can go to 14.

Is Copeland in there?

MS. BELMONDO: Copeland is in there, yeah.

MR. BIELLI: You have them as a green light. I'm looking at our flash

report which you said you reviewed. And I notice that they're trailing the Russell 2000 index pretty much across the board, at least according to the flash report.

So, would that be an example of where -- why do you have a green light next to them?

MS. BELMONDO: Yeah, yeah. That's a great, great question. You are looking at the right things on the flash, and I appreciate that.

Copeland is a dividend-focused strategy, and they are very value tilted. So, we actually have them as a one-rated strategy on our platform. And what the means is, it's -- one rated mean it's one of our higher conviction names.

So we -- you know, Copeland would be best complemented with a gross manager. So looking at the structure of your portfolio, we would want to revisit the manager pairings. But Cope -- looking at Copeland as a silo, they are very value focused because they are focused on

dividens. So as you know or may have heard hopefully from PFM, that the spread between growth and value has been huge. And value is actually an attractive entry point now. We are not going to say it's going to revert to the mean tomorrow. It could happen in a month or a year. But we -- at this point, it would be appropriate to keep Copeland, complement them possibly with maybe a growth manager and just continue to watch them.

But I understand. I think the benchmark, too, is tough because the Russell 2000 has a lot of growth in there. So, maybe adding another benchmark to them like a Russell 2000 value, would be more appropriate.

MR. BIELLI: A better indication of what their true performance -- benchmark performance is. Okay.

MS. BELMONDO: Exactly.

MR. BIELLI: Thank you.

MR. LEONARD: So, Margaret, just on a time check, I think we are probably well

past our 20 minutes. So, maybe we can ask if there is any other direction you would like us to go to or conclude or keep going.

MR. RUBIN: It is time, so you can wrap.

MS. BELMONDO: Sure. Yeah.

Look, I would say, you know, we would love for you to join our NEPC client team. I, personally, being local would love to work with you here in Philly. So, I think our fees are listed in the back of the book.

So you know, if there is any other questions, if you want us to review anything else beyond this, we are happy to do that on this call or separate call. But we would very much look forward to working with you.

MR. DiFUSCO: Hearing no other questions, Margaret, Kristin, Kevin, thanks for presenting again. Thanks for your time again this morning. And you know, I will be in touch probably later today just letting you know what -- you know, what

e5719944-7e5d-452a-a26f-5b233a0c74b5

step or where the Commission is at in their deliberations and process or if they have made a decision.

So, enjoy the rest of your week. And thanks for your time this morning.

MS. BELMONDO: Thanks.

MR. LEONARD: Great. Thanks, everyone.

MS. FINNEY-COOKE: Have a good one.

CHAIRMAN SCOTT: Thank you.

- - -

(NEPC Presenters exit video stream.)

- - -

MR. BIELLI: Only because I was not at the first presentation, that's why I had those questions. Not trying to dominate the question. I was not at the first presentation, so.

MR. DiFUSCO: Just quickly, Fran, to answer your question and so Kellan and Donn are aware -- I went back through the initial -- excuse me, PFM presentation from September. And I did not see a reference anywhere to 10 percent private equity in

their slides. So, if there is no other questions about NEPC, Bill, I think you can let Marc and Surya and Alex in from PFM.

MR. RUBIN: Sure.

- - -

(PFM presenters enter Video Stream)

- - -

MR. DiFUSCO: Morning, Marc, Surya, Alex. Thanks for -- thanks for joining us this morning. I think you are familiar with the Commissioners that are alternates. But just so you know, the folks you have in the room today on the Board are Donn Scott, the Chair; Kellan White, the Controller's First Deputy; and Fran Bielli, who sits on behalf of the Finance Director.

As we discussed or I discussed with Alex, you have roughly 20 minutes, give or take, with Q&A. I know you will have some questions from some of the members along the way. And Bill or myself will try to give you a, you know, time check when you are running up against it.

So, whenever you're ready to start,

you can jump in -- jump into your comments.

MR. AMMATURO: Thank you, Chris. Can everyone hear me? This is Marc Ammaturo with PFM.

MR. DiFUSCO: Yup, good morning.

MR. AMMATURO: Good morning.

Okay. In the essence of time, we will jump right in. If you want to flip ahead to the Agenda -- no, to the Agenda, please. Thank you.

So yeah, thank you for this opportunity to present. We are excited to be considered to be retained here at PGW. Chris did reach out to us and asked us to address the following three items.

One, as you see on your slide here is fees, which I will hit upon in a second. Two is asset allocation modeling. More specifically, if the discount rate was reduced to 7 percent, what impact, if any, would that have on PFM's recommended asset allocation mix. And lastly, Chris asked us to address our commitment to diversity, equity and inclusion.

So again, in the next 20 minutes, those are the three items we are going to hit upon. If you want to move ahead, please, Bill.

For Fran's benefit -- and welcome, Fran, and congratulations on the new governance role. For Fran's benefit, I think just take one minute to introduce ourselves and let Fran know our role at PFM and our role, more importantly, at PGW.

So, my name is Marc Ammaturo. I've been at PFM for sixteen years. I'm a managing director at the firm. In addition to my management responsibilities, I'm a member of our investment committee, which is the committee that makes decisions on how to invest our clients' assets. I, also, spend a good bit of time servicing clients here in the Commonwealth.

So with that, I will hand it over to Alex to introduce himself briefly, please.

MR. GOLDSMITH: Yup. Thanks, Marc. First of all, I apologize. I don't think

e5719944-7e5d-452a-a26f-5b233a0c74b5

my camera is working, so you're not able to see me today. But I'm Alex Goldsmith. I have served the plan since 2016. I have been with PFM nine years and three days as of today. And I cover -- I handle a lot of the day-to-day interaction with staff, you know, the Commission, the managers related to this plan. And I, also, exclusively serve governmental plans in Pennsylvania for the remainder of my other clients.

Thank you. Surya?

MS. PISAPATI: Morning, everyone. I'm Surya Pisapati. I sit on the research team overseeing manager research efforts across global equity. I, also, sit on our investment committee alongside Marc. So as an investment committee member, I work with our clients building any custom portfolios that they need. And I, also, work with our chief model asset class strategist on that leadership.

MR. AMMATURO: Thank you, Alex and Surya. You can flip ahead, Bill, please.

Thank you. So, this is the first

of the three items that I mentioned already. So, the first item Chris asked us to address was fees. And you should see this now on your screen.

Our proposal is $190,000. You might notice that that's a further reduction from what we discussed when we got together at the end of 2020. At the end of 2020, our proposal was 220,000, which was reduction from what we included in our RFP response. And now we are doing a further reduction to 190,000.

You might be asking yourselves, what's the rational behind the reduction. And two thoughts come immediately to mind. One is, you know, living through this social distancing recession, we are all aware of the financial and economic impact that this recession is having on entities across the globe and here in the United States and directly impacting utilities such as PGW. So, we are sensitive to the financial impact of this, again, pandemic that we are living through.

The other reason is, we walked through and went through a procurement process with PGW on the OPEB side. And PGW/OPEB, we were not selected. The incumbent was retained. We did take the time to have a debrief call with staff at PGW. And one of their feedback item was our fee being a little high relative to the competition. We took that as a lesson learned and applied that here at PGW Pension.

We did not have the opportunity to interview, so we were not able to negotiate our fee off what we proposed at PGW/OPEB. Here, as the incumbent -- again, thankful -- we have the opportunity to interview and to reduce our fee to 190. At 190,000, if there is still discussion to be had, and we are happy to discuss offline to get to a happy medium between what's sufficient from a PFM perspective and, you know, what's again sufficient from a PGW perspective.

So again, we would like fees not to

be the driving force behind the potential -- behind the decision here. And we are willing to negotiate further if needed. For instance, if there is a step-up approach that's recommended by PGW to get up to 190,000. Again, we are willing to have those conversations.

And just so you know how we arrive at that figure, if you look at the market value of your portfolio when PFM got hired, it was about $480 million. Our fee, as you know today, is $155,000. So if you take 155,000 on 480 million, you get at about three basis points.

Today your portfolio is about 610 million. And if you look at 190,000 on top of 610 million, it's also three basis. So again on a basis point basis, the fee has remained static since PFM has been on board here. So, I just wanted to make these comments in terms of the fee proposal and just add some more clarity behind it.

So, we can -- we can move ahead. And with that, I will hand it over to Alex

e5719944-7e5d-452a-a26f-5b233a0c74b5

to go through the second item, which again is asset allocation modeling.

MR. GOLDSMITH: Thanks, Marc.

It does sound like you can see me. I am getting some texts from Surya. I might be a little close. And so for that, I really apologize.

Anyhow, you want to flip ahead Bill to Slide 7. So, we were asked, you know, to consider what would we do differently with the asset allocation of the plan if the discount rate were lowered to 7.0 percent in the current 7.3. In the interim, we learned that that rate was formally lowered, and it will take effect this summer when the fiscal year turns over. So, commend you on making that decision. It will certainly make things -- give the plan some breathing room.

But you know, we did want to take a look at this from a modeling standpoint. We, you know, consulted with the investment committee, you know, as a team. And you know, ultimately, given some changes we

will talk about in a second, primarily the outlook for bond returns going forward in the future. We expect, you know, that is not going to be challenged. And we ultimately recommend maintaining the current strategic allocation that you have in the investment policy statement now of 60 percent equity, 32 and a half percent fixed income and 7 and a half percent to alternatives.

Now that's not to say we recommend doing nothing. You know, we've obviously advocated for, you know, tactical management decisions over the course of the relationship here. And we, certainly, would have to advocate for those. Some of the themes -- what we've talked about in the past around the additional alternative.

As they are added to the portfolio, we advocate for a, you know, measured pace of commitments and a steady pace. You know, making consistent commitments on a regular schedule will help the plan get up to target or exceed or slightly below

and -- and maintain that as the capital is returned.

You know, another element is emphasizing private debt and non-traditional fixed income investments, particularly in this period where we are now. You know, the Fed has cut rates. It's expects the rates will be kept low for several years. And you know, all indications of a new administration won't be changing that any time soon.

You know, in the vein of emphasizing private debt at a steady pace, you know, the current portfol -- the current investment policy statement allows for up to 10 percent of alternatives. The target is 7 and a half. The allowable amount is 0, where we are now, up to 10 percent. And in an environment where, again, you know traditional core bonds are challenged, you know, an overcommitment may be warranted.

And as I mentioned a second ago, these alternative funds will kickback cash.

Private debt strategies do so at a particularly higher rate. So, you may need to, you know, have a increased funding schedule to get to or exceed your target.

And then lastly, you know, again as we have always done, we will continue to tactically recommend over and under weights to all asset classes: Alternatives, equities, traditional fixed income, you know, high yield and investment rate bonds to take advantage of disconnects in the market and areas where valuation might -- valuation might benefit the plan going forward.

So with that in mind, I did mention core bonds. On the next page you can are capital market assumptions. Bill, you go and flip ahead.

And where the green arrow, that's pointing really to our core bond assumption, which is 3.8 percent, you know, annualized over the next thirty years. That's come down pretty significantly where our CMAs were last year.

e5719944-7e5d-452a-a26f-5b233a0c74b5

Surya, I don't know if you want to elaborate on that --

MS. PISAPATI: Sure.

MR. AMMATURO: -- relative to the private debts CMA, for example.

MS. PISAPATI: Sure. And what has changed between last year and this year is COVID. And as a result, Fed cutting rates. And where rates are currently is at the lower end. And we do not expect rates to go up or Fed to increase rates until 2024.

With that backdrop, given the low level of rates, core bonds are expected to yield much lesser than what they have been expected as of the end of last year. And that explains why our core bond return expectations are much lower across both intermediate term as well as long term.

Similarly, if you look at investment grade core rates as well, the expectations there have come down because the spreads have tightened to historical low levels. So, there is only so much room in terms of where the spreads could go from

here. And as a result, expectations are lower there compared to where they were earlier last year.

So with that in mind, when you compare that to private equity or private debt, the expectations look much attractive in the private space. And if you look at the private space, it's driven by credit to some extent. Easy credit policies. Easy monitoring policies are all conducive to private asset class. If you take a step back and look at private assets, it's basically leverage and it's access to credit. And -- and those -- those two are driven by level of interest rates and how -- how loose the financial conditions are.

Given where the financial markets are at this point, given the easy monetary policy that we have in place and that's expected to stay, we expect private equity and private debt to yield a higher return over intermediate as well as long term. And that looks attractive related to the

fixed income assets where the core bonds have low expectations.

MR. GOLDSMITH: Yeah. And actually, Bill, if you want to flip ahead to the next slide, you can see the impacts.

So we did -- we did take a look and ran our Monte Carlo simulation with our capital market assumptions. You know, the current portfolio targets are outlined red in the middle. And you know, when you go down to the bottom of the page, all the way at the bottom, the long term assumption output for 30 years, you can see the expected return for the current portfolio is coming in at 6.9 percent, you know, just below the new actuarial target.

You might remember as we looked at this throughout 2020 under our previous set of assumptions as we were looking at different levels of alternatives to perhaps include in the portfolio, you know, this portfolio had, I think, a 7.3 percent expected return; essentially, right on top of the old target. The change in expected

output you see is the direct result of what Surya just talked about. And our reduced assumption for generally core bonds.

One thing I will add is PFM is generally very conservative in constructing our capital market assumptions. It's been a hallmark of the process since I joined nine years ago. So you know, we use this to help guide us. But ultimately, you know, you can see the output here. You know, if you look all the way to the left, it was 70/30 portfolio with a high rate -- 7.5 allocation in return. But I think it was a goal of ours that when you're lowering the return assumption, they're not to add any additional equity risk that's not needed in the portfolio.

We have the tools that are available to us that I went through a minute ago. And we believe that we can achieve the new 7.0 percent return over the long term. But with this long term strategic allocation here and the tactical as mentioned.

e5719944-7e5d-452a-a26f-5b233a0c74b5

Move onto the next section, Bill. And we were also asked to address, you know, PFM's commitment to DE&I -- you know, diversity, equity and inclusion and, you know, recent developments.

So on this slide here, you know, this -- PFM, it's been at the heart of PFM since I joined. But you know, formally, the current DE&I Initiative really began in 2016 with the formation of the DE&I Council and the formal setting out of these, that per the graphic, they reflect on each other, the feed on each other to grow. But ultimately, they create culture that we at PFM want.

It's a welcoming place to work. And then, that in turn yields the outcomes that our clients, you know, should receive, you know, from a diverse, talented workforce. You know, they include, obviously, targeted recruiting efforts, you know, team building and culture efforts, and education activities around that.

So that was put in place, like I

said, four years ago. On the next slide you can see where we are today, you know, the end of 2020 going into 2021. So, there were some pretty exciting things that took place last year.

Firstly, you know, the DEI Council was elevated to, you know, an executive level position with a formal DEI advisor put in place. Secondly, in adherence to and furthering the cause of the DEI Initiatives -- again, diversity, equity, inclusion -- is part of our evaluation process for all PFM employees, particularly managing directors. It is part of our compensation now how well we -- you know, we drive these efforts forward for the firm and for clients.

You know, we added -- we started -- on the previous slide I mentioned, we added some training. We added a lot of significant interest groups. You know, started with just two through to three. Last year, the number of groups grew to six. And then most recently, I don't know,

Surya, if you want to elaborate on this, we formally instituted minority manager search protocol as part of all of our investment committee circuits.

MS. PISAPATI: Sure. Yeah. So, we wanted our manager selection process to reflect the firm's principles. And as a result, what we said was that for every manager search that was brought to the investment committee, we need to include diverse managers in the search. And in cases where a diverse manager is not fit, the analyst has to provide comments or enough comments to justify why a diverse manager is not chosen for a particular search.

And I think that kind of takes care of any biases that the analysts have and helps us kind of look under the hood, because some of those diverse managers are not easily found. We have built our own internal database of D and WB managers. But if anything, it is putting more traction around finding those managers at

the committee level.

MR. GOLDSMITH: Yeah. Thank you.

You know, another recent addition, it's not necessarily on this page, but we continue to explore the possibility of directly brokering vehicles for a wide range of clients, whether they have a directing brokerage program like you all do or not.

The last thing I will mention, you can see it on there. We just received, you know, the RippleMatch award. It's a recruiting service. But a big proponent of this on-campus recruiting award is diversity, equity, inclusion and -- reaching out to students of all backgrounds. So, we are pleased to see the reward. Not why are doing it, obviously, but it indicates, you know, we are moving in the right direction and will continue to do so.

Lastly on the next slide, this is our, you know, minority women breakdown by ownership, managers and the total firm at

e5719944-7e5d-452a-a26f-5b233a0c74b5

PFM asset management. You know, we continue -- we are a diverse firm. We are, previously, a majority -- minority-owned firm. And following our management buyout, we continue to, you know, move back to that aspirational goal. And I believe we have provided the full details for this in the past.

So with that, you know, thank you. And I will pass it back to Marc.

MR. RUBIN: Marc, that would be time. If you can wrap.

MR. AMMATURO: Okay. Can you go ahead, please, Bill? Thank you.

We are at the 20-minute mark. Those are the three points I wanted to raise. I will just close here with what value PFM provides to PGW. If you can move ahead one slide, not going to spend a lot of time here. We are based in Philadelphia, you know that, right in the heart of Center City. This is a big deal. You know, Slide 16 is a big deal.

If you look at the bottom line --

the bottom row. When we got hired, you paid your underlying managers PGW the 35 basis points, which equated to almost $2 million. That's how much you pay your domestic equity, international equity and fixed income managers when we got hired. If you look at the top row of the chart, you now pay 20 basis points or 560,000 on a half year basis.

So if you annualize that dollar amount, you get to 1.2 million that you are going to pay in Fiscal 20, 1.2 relative to 2 million that you paid in Fiscal 15 when PFM came on board. That's $800,000 in savings. In basis points, it's the reduction from 35 to 20. Again, this is what you've pay your domestic equity, international equity and fixed income managers. PFM takes great pride in driving down costs as your investment advisor.

And one last slide, please, Bill. The last slide I wanted to address, being sensitive on time -- again, how is PFM different than the competitive landscape?

One, low cost. You just saw how significantly we reduced underlying manager fees within your fund. And as I mentioned, we reduced or fee two times during this process, and we are willing to talk if further discussions need to be had around our proposal of 190,000.

How else are we different? You know, Alex talked about how we continuously enhance your portfolios, proactively communicating tactical portfolio adjustments. Our investment committee gets together twice a month. If recommendations come out of that committee meeting, Alex is on the phone with Chris immediately talking about what we recommend and why and to see if it makes sense for PGW.

We are committed to serving Philadelphia-based clients. We are based, as I mentioned already, at 18th and Market. We take great pride in servicing our hometown clients and high-touch client service. Again, we talked a lot about that in the past 20 minutes. I think, you know,

Chris knows how frequent and how proactive we've been with Chris during this engagement. And we look forward to the opportunity to continue to service PGW going forward.

Again in the essence of time, I will close our remarks there and open it up to questions.

MR. BIELLI: Can we go back to page 6, Billy, on the slide? I know Alex gave this presentation.

This is good. This is fine.

I don't know who wants to answer, but Alex gave the presentation. Yeah, the tactical over and underweight for the asset classes is based on the best thinking of PFM's investment committee.

Now, is that general on a macro level, on a micro level, or is it a custom portfolio that Surya puts together for our fund?

I mean, how would you be applying that invest committee under or overweight to our portfolio? And I am thinking

e5719944-7e5d-452a-a26f-5b233a0c74b5

back -- even though I was not the designee at the time -- I am intimately familiar with the COVID recommendation of taking money off the table. Not sure actually how that worked out as far as reallocating the money and whether there was general consensus across the board. I assume not in your own investment committee.

But how would you apply that to our fund given that our fund is not an OCIO type of model? Is it micro? Is it macro? Is it custom? How would that work?

MR. GOLDSMITH: So, okay. Thank you, Fran. I think I understand your question. I have to answer it in a couple parts.

You know, our investment committee thinks on a generally macro asset class level. They are dealing with the economy as a whole and, you know, broad asset class positioning. Surya, please, and Marc, as members of the investment committee, correct me if I'm wrong.

They have views on every asset

class and favorability on favorability. Qualitative and quantitative analysis from our research group goes into that. That, generally, leads them to a positioning, a broad -- a positioning. It is my job in conjunction with Marc and Surya and others of the investment committee to reach a custom portfolio and staff -- staff commission, we come up with custom recommendations for the Sinking Fund to present. And they are done in conjunction with Chris, as I mentioned, and presented to you all for selection.

So you know, obviously, every client -- and that's, generally, how things are done for our discretionary clients, too. Every client has different policies, goals, et cetera. And so, it's the role of people like me in conjunction again with the committee professionals to reach the customized portfolio for individuals. The only difference between this and OCIO is that, you know, it's presented as a recommendation with the same

backing analysis that our investment committee get. Same discussion. Ultimately, the decision lies with you all.

MR. BIELLI: Right. Would that normally happen in the tactical over and underweight of asset classes? I mean, is that -- is that only occasionally, I would assume and not frequently on a given, like, situation with COVID or Greek debt crisis? Or things like that?

MR. GOLDSMITH: You know, that was certainly a large magnitude move. It was a very, you know, obviously unique challenge that faced us back in March of last year. You know, I'm trying to think of other instances. We, typically, utilize the monthly cash raise to act tactically related to this plan. I think we planned to talk about it, you know, after the meeting.

You know, Surya, Marc and I just conferred and we discussed with Chris. And we elected to raise an additional one quarter of cash from equities, you know,

following the runup in valuating we have seen recently. That's, typically, been, you know, one of the most used tactical tools we have used.

You know, you have to remember also that this plan requires RFPs for acting condition of new managers. And so, that sometimes hamstrings the ability to quickly, tactically add new asset classes, Fran.

MR. BIELLI: Yeah. No, I get that. Being the Director of the Municipal Found, I get that we can move as quickly as the Titanic. I get that.

MR. GOLDSMITH: So within what is out there in the plan, it's overweighting and underweighting existing classes. If it's not done in conjunction, with let's say, cash raise, it would be brought to the full Commission. And you know, I can think of the most recent instance was certainly back in March of this year. That was, obviously, a large magnitude recommendation.

e5719944-7e5d-452a-a26f-5b233a0c74b5

MR. AMMATURO: If I can just mention one thing -- I'm sorry -- real quickly just to give you some context, Fran. On a typical year, we are averaging maybe one trade a quarter, four or five trades a calendar year just to give you some more context. This past year was an anomaly, obviously.

MR. BIELLI: That makes sense. Given the pessimistic outlook on fixed income, which I get, and I don't think anyone would disagree with that. Why are you recommending the same percentage in the asset allocation for fixed income?

I mean, unless I'm reading it incorrectly.

MR. GOLDSMITH: Again, we are. That is correct. You know, for the strategic allocation, the investment policy statement, we are keeping it at 60, 32.5 and 7.5.

You know, to directly answer your question, Fran, it's a lower fixed income. That target would have to go somewhere else

either into, you know, alternatives or equity or cash. Frankly, view cash as part of the fixed income, you know, target there. And like I said before, it was a goal of ours, in -- you've all acted prudently to lower the target. You know, we didn't want to increase equities -- you know, effectively increase the risk of the portfolio on paper.

You know, we also just recently agreed to 7 and a half percent alternatives target. It's allowed to go up to 10 percent. We felt that the targets as structured were appropriate to achieve 7.0 percent over the long term.

MR. BIELLI: Right. So because the assumed rate is reducing the risk profile of the fund, why reduce the risk elsewhere.

Is that, in essence, what you are saying?

MR. GOLDSMITH: Yes. When we have the ability to do, you know, the things I've been speaking about.

MR. BIELLI: Okay. Thanks.

MR. DiFUSCO: Assuming there is no other questions from Donn or Kellan -- Surya, Alex, Marc, thank you for your time this morning. We will excuse you from the meeting just for a few minutes so the Commissioners can discuss, deliberate and ask questions. And then we will invite you back in for a very brief summary of December investment performance.

MR. AMMATURO: Thank you, Chris.

MS. PISAPATI: Thank you.

MR. DiFUSCO: Thanks, everybody.

\- - -

(Brief pause as PFM Reps exit Video stream.)

\- - -

MR. RUBIN: You're clear, Chris.

MR. DiFUSCO: Thanks, Bill. So, Donn, Fran, Kellan, happy to take the discussion if there is any to be had or questions. You know, deliberate amongst yourselves. Or happy to take this in our time together, any way the three of you would like this morning.

CHAIRMAN SCOTT: Yeah.

Christopher, I would like to ask a question.

MR. DiFUSCO: Sure.

CHAIRMAN SCOTT: The last time PFM made a presentation, we did push them on the price and they were -- yeah, the fee, and they were relatively -- not relatively, they were inflexible as relates to bringing the fee down. He made reference to some business that they lost. I'm not sure if I understood what that meant. And as a consequence, that they felt they needed to be more aggressive with pricing.

Can you walk me through why they appear to be really aggressive from a pricing perspective?

MR. DiFUSCO: Sure. I mean, ignoring the possibility that I just have really, really good negotiating skills, which I am not going to chalk this up to, they -- so the PGW -- PGW has another pod or account of money for post employee retirement benefits, the OPEB trust that has a five member board. Rob is also a

e5719944-7e5d-452a-a26f-5b233a0c74b5

member of that. I sit on that Board for him.

And the way that account works is that PGW over a period of, let's call it, a couple of decades is putting money in with an eye towards at some point being able to fund other, you know, non-pension retiree obligations out of that pot of money. There is an investment advisor consultant for that. It's currently -- was formerly Gallagher out of Pittsburgh. It's now AndCo, who presented to you all back in September. That was recently opened as part of an RFP process. And their fee relative to their peers, including AndCo is very, very high. And they were also predominantly pushing a -- an OCIO model.

So, my understanding from some brief conversations with Marc around that -- and I always have to be careful in terms of, you know, disclosure and being sensitive to how other members of the Board feel. I mean, I did indicate to Marc and Alex and Surya, you know, that price was

certainly a consideration. That their price was very high for that bid.

And it appears based on his comments that, at least in part, they took the loss or the potential loss of that business in consideration here when lowering their fees further as part of their proposal to the three of you today.

CHAIRMAN SCOTT: Thank you.

MR. DiFUSCO: Sure.

MR. BIELLI: I would just add, Christ, just as a comment if we are going to get to the point of making a decision on these two is that there is, obviously, the pros and cons to both. The fact that PFM indicated a willingness to negotiate possibly further on their fee and maybe coming out at the end at 190 is interesting to me, a stepped up fee.

I mean, as it is now, we are talking about at the end four years, a substantial difference in fees, you know, at the end of four years. And so, I think that's a good thing. I think -- I liked

what PFM had to say about the risk -- risk in general. I liked what Alex had to say about the fact that we do seeing the assumed rate of return, it does reduce the funds risk profile. There is no question about that. That's factual. That's a true statement.

The fact that PFM recognized that and recognized the fact they don't have to radically shift the portfolio is encouraging to me. And I believe Alex said during his presentation, they tend to be a little more conservative. I like that for a fund that's funded, you know, at the level that the Sinking Fund is. It's not a hundred percent, but it's not 50 percent either. So, the funding level is decent.

I think NEPC -- I think it's overpromising. I mean, when you're -- when you're looking at throwing a 15 percent private equity out there, private debt, so on and so forth -- and Margaret said it. And I appreciate her honesty. But that is increasing the risk profile of the fund.

And it's increasing the risk profile of the fund pretty substantially in my opinion.

So, I liked what -- I liked that this fund has reduced the assume rate to 7 percent. I like, you know, our conversation at the last meeting, you know, Joe Golden indicating the commitment of continuing to contribute at the level that PGW has been contributing to the fund. And I think everybody is on the same page of trying to reduce the risk level.

I would hate to see the portfolio radically shifted in a more risky level given that everything else seems to be de-risking. So for that reason, I like PFM's proposal. I, also, like the fact that our returns had been good under PFM.

I studied the flash report. I looked at the return for a long period of time. And they are right about the fees. They are incorrect that it was -- it was something that was done solely by them. Donn, as you know, you've been here. Kellan, you've been here. And we know it

e5719944-7e5d-452a-a26f-5b233a0c74b5

was a concerted effort by the City in general, not just the Sinking Fund but the Municipal Fund to more pass investment, to push or reduce the fees. And I think, you know, Chris as CIO of the Sinking Fund was the catalyst behind the reduction in fees along with the trustees, you know, Donn and the Controller and Kellan in reducing the fees.

So, I will give PFM some credit for that, but I give the majority of credit to Chris and the trustees. But the fund is in a good position on a risk basis. And PFM seems to be consistent in that, in that respect. For that reason, I like the way they answered those questions.

You know, I -- substantial shift in the asset allocation, which is what NEPC is recommending, I think may be a little more risky than is warranted at this point. I would certainly -- that's it.

MR. WHITE: Thanks for that, Fran. I think, one, in regards to PFM lowering the fees, I think it's -- let's call it,

their competitive advantage in working with us and sort of seeing, you know, bidding on other things and realizing their fee was too high. They got almost a second and a third bite at the fee apple, you know, whether it was, you know, by happenstance or whatever so that they got that -- had that advantage.

And I do think it's still concerning to us, you know, that emergency meeting during COVID just -- the whole thing felt like -- it raised a lot of red flags I don't necessarily think are gone. I think we all hope that we don't ever get to a situation like we were in March, right? But that sort of reaction just felt uncomfortable, for lack of a better word, for people who are supposed to advise you and sort of have that shift.

And you know, I just -- I have some concerns about them shifting away from discretional consulting in general, right? There are a lot of red flags. At least what I thought I understood NEPC saying,

and maybe I was -- I misunderstood, was that they did make some recommendations. But they were also willing to work with us based on what our risk tolerance was, right? So, I just think that, you know, our office came in today leading NEPC. And I don't think that PFM -- I think they absolutely did close the gap. I will give them credit for that. I don't believe anything to supplant NEPC. I don't think NEPC did anything to hurt themselves so much that I suddenly I feel -- our office feels significantly different about their candidacy.

But I mean, I think it's worth having a discussion. I think Fran did bring up some valid and good points.

CHAIRMAN SCOTT: Well, I can -- I can feel Rebecca the last time we got together evaluating these firms. She was definitely disappointed with PFM. I don't know if she said that or it's just a takeaway that I had from the discussion.

Also, I thought that -- and I

really need to look at it further in terms of their -- PFM's commitment to diversity and inclusion and get a better feel for that. But I'm just -- I was just shocked that they were willing to bring the price down so significantly.

So in a case like this, is it appropriate for us to have more discussion? Or do we need to make a decision today?

MR. WHITE: Chris, you are muted.

MR. DiFUSCO: Sorry about that. Thanks, Kellan.

Donn, no. You are not required to make a decision today. Certainly, if you want to go back either individually or with the group or with me look at the diversity and inclusion data, if there is follow-up questions from, you know, Fran, Donn, Rebecca, Kellan about any of the points that were raised on fees, on the 15 percent private equity, on the OCIO model, I can certainly bring those back to one or both firms.

And then, you know, I can -- once I

e5719944-7e5d-452a-a26f-5b233a0c74b5

Page 82

presented that information to you either verbally or via email, if folks want to get together sooner to make the decision, they can. And if there is a desire to just wait and decide in March, that's fine, too. But there is no -- there is no contractual or legal requirement that a decision has to be made today.

MR. WHITE: As a follow up, Chris, you know -- and I think we all agree that PFM significantly lowered their fees, and that is great. Is it appropriate to nudge NEPC on their -- on their fees? You know, like I think that -- I mean, I'm not -- I don't want to sound like I'm accusing PFM of any wrongdoing. But I think they just -- they knew more. And used their knowledge to say, we can lower fees to this. I think that's sort of great.

I think we should at least see if NEPC can move on it. Because if that's going to be a deciding factor -- and look, they can say, no, we're not going any lower. And that's like, you know, swings

Page 83

the pendulum closer to PFM. But if they are able to work with it -- I think we are better served to have the conversation, all things being equal, if we can. If they can't, I think that's a significant factor in the decision making.

MR. BIELLI: Chris, was NEPC given the opportunity to present their best fees?

MR. DiFUSCO: They both were. Yeah, I went back to both of them multiple times. Did ask for best, last and final. But I probably asked them both, I would guess, ten times, I mean.

But you know, to Kellan's point, obviously, they did have a little bit more information. I, certainly, as part of this process, happy to ask both firms again. I can get more details from PFM on their step-up or step-down fee that Marc referenced.

And I can certainly -- particularly, since Margaret is local, they have discussed on a really, really high level. And I think it's years away. But

Page 84

perhaps opening a Philadelphia office at some point, I can see if that local presence for her can move the fees down, as well. I'm certainly happy to have those conversations another time.

MR. WHITE: Chris, just for my edification, so PFM has lowered their fees twice, right?

MR. DiFUSCO: Correct.

MR. WHITE: 250 to 220 and 220 to 190, I think. In the course of asking them for their, like, best/final offer, was their first/best/final, like, 220 and then the next best/final was 190? They just went back into their cave and talked amongst themselves and were like, oh, we can do 190? Is that how it worked? Or was it sort of the first time you asked for their best/final fee, it was 190?

I'm just trying to understand the chain of events.

MR. DiFUSCO: No. It -- the 220 was the initial/best/last and final. I did -- I did make them aware that -- you

Page 85

know, I think as Donn said, you know, when he -- he got, you know, certain vibes or, you know, heard certain comments from Rebecca at the last meeting. I, also, got the sense both directly from talking to Donn and then indirectly just from certain things he said at the meeting, that the fees as well, if my memory serves me correctly, Marc's answer back at the September meeting on the fees, did not sit particularly well with any of the Commissioners or their designees.

So, I made them aware a couple times that fees were still an issue. I did not get a -- I did not get a phone call or anything saying, hey, you know, the fees are going to be substantially lower. When I got the presentation dec, it was either right before or contemporaneously, I got a call or email saying, hey, you know, please make sure -- you'll note that we are lowering fees again.

So you know, to your point -- I mean, it did -- look we pushed, the

Commission pushed, I pushed behind the scenes. But you know, their best/last and final has obviously dropped significantly. I think that's a good thing. But to your point, you know, there are certainly questions about how they arrived at the number. And if either firm can come down more.

CHAIRMAN SCOTT: Chris, can I ask a question?

MR. DiFUSCO: Sure.

CHAIRMAN SCOTT: The formula that they put out, three basis points, is that what the industry uses?

MR. DiFUSCO: I don't -- you know, Donn, I think that's -- look, I don't want to -- I don't want to sound too cynical, but I think -- I think all firms, not just PFM, but they have ways as consultants ways to make their fees look, you know, attractive.

It's not something that I have seen. You know, I don't recall that it's something Marquette has presented to us at

the main fund. I don't recall it being something AndCo has mentioned at the OPEB Trust. I don't think I have seen it in my work as a trustee on the Jenkins Board where we have a couple investment accounts, the Law Library.

So, no. To answer your question, I wouldn't call it industry standard. Other people may use it, but I don't think it's like a hard and fast rule by any -- by any stretch.

CHAIRMAN SCOTT: Got it.

Well, my position is, let's take a little time to reflect on this. I don't know -- I wouldn't suggest we wait until March.

MR. DiFUSCO: Okay.

CHAIRMAN SCOTT: But at the same time, I want to get to the Inauguration, so I think we should move on with the next phase of the Agenda.

MR. DiFUSCO: Yeah. What I will do is, I'll take your questions back to both firms. I will come back to you with a,

let's call it, within one to two weeks, depending on how long it takes them. And then, we can decide or, rather, the Commission can decide, you know, I can throw out some dates so we don't have to wait till March. And then, the three of you or the Controller and you guys can decide when you would like to get together. We will just have a Special Meeting, just a brief special meeting just to talk about this.

CHAIRMAN SCOTT: That would be great.

MR. DiFUSCO: Okay.

Bill, if you want to invite PFM back in, I will remind them to be short and sweet.

\- - -

(Brief pause as PFM rejoins Video stream.)

\- - -

MR. DiFUSCO: We have everybody in, Bill?

MR. RUBIN: We do. They're back.

MR. DiFUSCO: Okay. Surya, Alex,

Marc, thanks for joining. Just a -- in the interest of time, the Presidential events ongoing, if we can keep the remarks largely confined to the December report and relatively brief.

I will just mention to the Commissioners, that before the market opened today, the fund had $633 and a million in it. That included 13 million in cash with a pending trade to raise another $6 and a half million in cash, which would cover, you know, about three additional months of benefits.

So with that, I will turn it over to PFM for some brief remarks on the December performance.

MR. GOLDSMITH: Yeah. Thank you, Chris. You can see the report up here again. You know, I don't know what's going on with my camera.

But for both the month and the quarter, the total fund top of the line, you can see, it was, you know, good outperformance relative to the benchmark

e5719944-7e5d-452a-a26f-5b233a0c74b5

clawing back some of the underperformance that we've seen. If you move out two columns to the 2020 column, that's what I was referencing. Unfortunately to the full year, the plan as a whole underperforming it's benchmark by about 1.8 percent or so.

You know, largely related to, you know, there was some -- you know, the bit with the asset allocation in March, but also some manager underperformance for the year. But related to December and the fourth quarter of 2020, you can see within the active managers, PineBridge, you know again continues to slightly underperform for the month and build up over the quarter. We did send a memo out in late December saying that PineBridge is remaining on Watch List. And then, we recommended issuing an RFP to explore options for replacement.

You know, one of those options is an index, as well. And we're going totally passive in large cap space. But we wanted to at least issue an RFP and see what sort

of active proposals and fees for those proposals we would get.

So, I don't know if you want to stop and make a motion on that, Chris, or do that at another time or have a discussion around that.

MR. DiFUSCO: I think with -- just with the search and stuff pending, and I will touch base with you guys after, we should -- I would like to just -- I would like to hold off on floating an RFP at least for a couple weeks, if that's okay.

MR. GOLDSMITH: Yeah. That's fine. You know, the magnitude of PineBridge's underperformance has not been large, but it's been the consistency that has led us to that decision.

You know, within small cap managers -- again, you know, Copeland, small cap, you know, underperforming for the month by fairly significant basis. Pretty strong underperformance for the quarter. And in particular, this manager has been one that has been weighing on

total plan performance. They were a new manager added last summer, summer of 2019. There were placed on Watch List after the last meeting or at the last meeting. We had a call with them about two weeks ago. They remain on Watch List.

Surya, I don't know if you want to briefly address our thoughts on Copeland.

MS. PISAPATI: Sure. Yeah.

Copeland focuses on different growers and it's focused on high quality companies. Quality, as a factor, has underperformed drastically in 2020, especially more so in the fourth quarter. Quality companies did well coming after the sell off. But as we saw a rally in the market in Q4, lower quality companies rallied. And that -- that hurt the related performance of Copeland.

Having said that, this is a manager that continues to have the investment process intact. And we expect that this strategy can offer outperformance over long term over a full market cycle. With that

background, in spite of the recent underperformance, we continue to be favorable regarding this manager. Having said that, if the performance does not improve looking ahead, then we will come back to you to ask for a replacement.

But at this point, given that low quality companies outperformed high quality companies -- and if you go back to, like, time periods like 2009, that happened then. 2009 was a junk rally. The managers that were focused on quality underperformed. But then they came back strongly 2010 through 2013, as quality in the market picked up.

So with Copeland, we see this underperformance as more temporary then a permanent impairment of their process.

MR. GOLDSMITH: Thank you, Surya. Moving on -- just to clear it, Copeland remains on watch.

Moving on, the asset international equity managers ended up being a bright spot for the year. It was a topsy-turvy

e5719944-7e5d-452a-a26f-5b233a0c74b5

year particularly for EARNEST. But you can see their performance in the fourth quarter following the announcement of the vaccine, you know, they were certain cyclical gains. And they recovered nicely, almost back in line for the full year 2020.

Acadian had a very strong month, and quite a good full year 2020. So, those were two managers added again summer 2019, added in tandem. And we are glad to see them working well together.

Moving on to briefly touch on fixed income. You know, as a whole, the fixed income portfolio slightly outperformed -- you know, the blended benchmark, outperformed the Barclays aggregate by, you know, 20 basis -- a little over 20 basis points or so. A mixed bag of performance for the more conservative core managers -- Weaver Barksdale, you know, Garcia Hamilton -- tending to underperform their benchmarks slightly. Whereas, the slightly more aggressive ones, you know, MetLife outperforming the core benchmarks.

And then, certainly, you know, the investment grade credit from MetLife and then the SkyHarbor high yield, you know, adding a lot of value, both for the quarter and for the month. That gives us what we were talking about a few minutes ago. And the -- you know, the weaker outlook for core fixed income relative to both higher yielding fixed income and then non-traditional fixed income.

So, that's -- those are the comments. You know, Chris let you all know about the cash raise. I will take any questions now.

MR. DiFUSCO: All right. Thanks, Alex. Thanks, Surya, for your comments on that.

If there is no new business, Donn, then the next regularly scheduled meeting is in March. Obviously, we talked about the possibility of a brief meeting sooner. And we will confer about that. But I'm happy to take any other questions. Or if there is no new business, the Commissioners

can certainly make a motion to adjourn.

CHAIRMAN SCOTT: Are there any questions?

There being none, is there a motion?

MR. WHITE: Motion.

CHAIRMAN SCOTT: So moved.

Thank you. Thank you, all, for participating.

MR. DiFUSCO: Thanks. We will be in touch. Have a good week.

(Meeting adjourned at 11:35 a.m.)

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

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

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

(The foregoing certification of this transcript does not apply to any reproduction of the same by any means, unless under the direct control and/or supervision of the certifying reporter.)

e5719944-7e5d-452a-a26f-5b233a0c74b5