CITY OF PHILADELPHIA

SINKING FUND COMMISSION

In Re: Quarterly Meeting

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Wednesday, September 14, 2016

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This Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned cause, before Angela M. King, RPR, Court Reporter - Notary Public there being present, held at Two Penn Center, 16th Floor Conference Room on the above date, commencing at approximately 11:00 a.m., pursuant to the State of Pennsylvania General Court Rules

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A P P E A R A N C E S

COMMISSION MEMBERS:
Donn Scott, Chairman
Alan Butkovitz, Controller
Christian Dunbar, (Sitting in for Treasurer)

ALSO PRESENT:
Matthew Mazza, Executive Director
Christopher R. DiFusco, CIO, PGW
Marc Ammaturo, PFM Asset Management
Alex Goldsmith, PFM Asset Management
Bill Rubin, Deputy Controller
Ellen Berkowitz, Deputy City Solicitor
Adam Coleman, Assistant City Solicitor
Also Present: PGW Reps - Dan Leonard and Joe

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CHAIRMAN SCOTT: Good morning, everyone. My pleasure to call the meeting of the Sinking Fund Commission to order. Thank you all for coming out and joining us this morning.

The first item on the agenda is the approval of the transcript of the meeting on July 13. Is there a motion?

MR. DUNBAR: So moved.

MR. BUTKOVITZ: Second.

CHAIRMAN SCOTT: Motion has been made and properly seconded.

All those in favor say aye.

(Chorus of Ayes.)

CHAIRMAN SCOTT: Opposed?

(No response.)

Ayes have it. All right.

The next item on the agenda is the PGW Pension Plan Investment Consultant Report.

MR. AMMATURO: Thank you, Mr. Chairman. Everyone has a copy now, the August update in front of them I assume. It's not in the spiral, just handed out separately. We just produced this since the one in the book is July. We figured we'd talk about August.

At the end of August, your plan market value was 492,225,556. For the month, positive monthly return of 36 basis points. For the most recent three months ending August 31, a positive 4 percent. For the fiscal year, return of 7.53; and a year-to-date, a calendar year-to-date return of 6.65. So taking a step back from the numbers, it's been a pretty solid year for asset classes across the board.

Through August, the domestic stock market was up about 8 percent. If you look overseas, the developed markets were actually flat through August. But emerging markets were up 15 percent. And if you look at the bond market, which we will get to in a second, it was up about 6 percent through August. So across the board, asset classes have done very well, again, through the month of August. And you can see that reflected in your total fund returns.

And even if you look down like one year, three years, your numbers are right around 7 and a half percent annualized, again, as of August 31. I think you are all aware of what your goal is here. Your goal is to meet your actuarial assumption, which is 7.3 percent. And your five-year number is well north of that, around 8.5.

So going down each individual asset class at a high level, I'll make some remarks. But your first bucket is large cap. The bolded row is how all these managers in large cap have done in the aggregate, so it's rolled up. If you look at the year-to-date column, 6.65. Again year-to-date for the ending August, 6.65. It actually trails the Russell 1000. The Russell 1000 is the benchmark for large cap domestic equity. Again, trails it at 6.6 verse 7.8.

Why? Look at the bottom two managers in that bucket. O'Shaughnessy, year-to-date 7.3 verse 10.2. And look at Fred Alger year-to-date up 2.2 versus a benchmark of 5.6. Your two active managers are not keeping up in this up market in the domestic stock market.

Why is that? O'Shaughnessy has big sector bets in their portfolio. You know, they're all about stock selection. They're agnostic when it comes to sectors. And if you look at their sectors, they have no exposure to utilities. Utilities were up 16 percent through August. And they are also overweight industrials, which has been -- which has been a head wind.

So, we're keeping a close eye on them. One thing you should be aware of, though, there is a large cap core RFP that's been posted. You may recall in meetings past we talked about why not dampen volatility as opposed to adding growth in value in higher core, large cap core manager. Again, that's in process. It's been posted. We will see how that plays out going forward. And you know, they just got hired here. They got hired toward the end of last year prior to PFM coming on board. If you look all the way to the far right, they got hired in November as of last year.

Fred Alger, again, that's the other culprit in terms of underperformance for the year in domestic equity. They have a big bet on Google. Google sold off in the second quarter. It was negative for the second quarter about 6, 7 percent. Google is about 7 percent of the portfolio. That was a headwind for the three months ending June for sure.

In the small cap arena, if you look at the year-to-date, this is all the small cap, year to small cap managers rolled up. Look at year-to-date, up 7 and a half percent. The benchmark up 10 percent. Vaughan Nelson is the culprit here. If you look at year-to-date again, is up 9.9. The benchmark is actually up 14 and a half.

Vaughan Nelson's longer term numbers are strong. If you look at the three year, five year since inception, they are all in excess of the benchmark. But this year they are being hurt by specific stocks in the financial and IT sector that held their relative performance back on the year-to-date. Again, longer term numbers, they added value to PGW since you hired them back in 2011. If you look up all the way to the far right, up 10.6 verse 8.6. So that's, again, since PGW hired them back in 2011, 2 percent of that performance.

Eagle's benchmark life for the year, 5.3 versus 5.9. If you look all the way to the far right, they have been in your portfolio for quite some time, as well. They got hired back in 2009. They've also added value, 15.05 versus 14.12.

Good performance in international equity. So, little bit different story than large cap and small cap. You look at international equity, you look at year-to-date column, significant outperformance, 9.48 verse 4.5. Everyone sees where I'm looking at for the year-to-date? So good alpha or incremental return generated by your active managers, actually, every single manager: Mondrian, Harding, PFAs on a year-to-date basis have all added value. Actually, if you look to the far right, they've all added value since they've been hired by PGW.

Mondrian and Harding both had strong, strong stock selection in Japan and the UK. And Harding's exposure to emerging markets has also been beneficial. Harding has about 15 percent over Philly in emerging markets. Again, I mentioned this when I started off. Developed markets overseas through August are flat. Emerging markets are up 15 percent through

August. And then you see your dedicated emerging markets manager on the bottom. So, all they do is invest in emerging markets. And it can be very volatile, but so far so good in terms of calendar year returns. You look at 16.8 percent positive. That's only about 4 percent of your portfolio.

They have a big overweight in Brazil, DFA does. Brazil, believe it or not, is up 60 percent year-to-date through August. Was negative 40 percent last year, but it's positive.

MR. BUTKOVITZ: How much of that is because of the recent impeachment in the last month or so?

MR. AMMATURO: Yeah. That's a lot of it. There's a lot of sentiment that the impeachment of the leader leads to a positive for the markets. So, a lot of sentiment leading up to his impeach -- her impeachment which has taken place. So that, undoubtedly, part of the rationale for the upswing in the Brazilian stock market as well as the prices stabilization.

MR. BUTKOVITZ: Opposition leader was just removed for corruption who led the impeachment. Damned if you do, damned if you don't.

MR. AMMATURO: Exactly. It's tough to get your arms around this political sentiment that drives markets. We tend not to do that. Without a doubt, political sentiment drives markets in emerging countries at times. That's not for long term, but definitely pockets where political sentiment will drive markets.

MR. BUTKOVITZ: Was the negative performance in Brazil also because of politics or was the fundamental direction down?

MR. AMMATURO: I would think the negative return last year was more driven by the drop in oil. So, there was a lot of commodity producers in Brazil needless to say. And the volatility and the price of oil last year led to some profit margin being squeezed and some of the Brazilian domicile companies. Now the price of oil has more stabilized. One can argue that's helped the companies domiciled there.

MR. DiFUSCO: And -- I'm sorry. And then also, just keep in mind we did -- the Commission did hire an index manager for the international space at the last meeting. I had sent an email to the Commission about that a week or so ago in terms of upgrading the platform with Wells Fargo. So once that is complete and once the contract is complete with Rhumbline, then to the extent there is recommendation to shift assets to index fund, we will be in a position to do that.

MR. AMMATURO: Thanks, Chris.

MR. DiFUSCO: Sorry about that.

MR. AMMATURO: No, thanks.

So in fixed income on the flip side, I guess to continue with Chris' point, there is a RFP out there -- actually, two RFPs outstanding. One is investment grade credit and fixed income, investment grade credit, and the other one is emerging market debt. Again, they are both outstanding.

The investment grade credit RFP, responses have been received. We will be going through them with staff here going forward, but just to close the loop on outstanding RFPs and potential changes going forward.

But in fixed income, performance is

fairly solid. If you look at year-to-date, 5.4. The benchmark is up 5.8. Very benchmark-like performance. What's helped here is the overweight credit.

If you look at Weaver Barksdale, outperformed. If you look at Logan Circle, outperformed. I'm looking at the year-to-date column. They are both overweight corporate bonds relative to benchmark. And credit has been a place to be so far in 2016. Logan Circle actually has some high yield. High yield has done really well this year. They have about 5 percent of their portfolio in high yield. There's no high yield in the benchmark.

So that corporate overweight for Weaver Barksdale and Logan Circle has undoubtedly helped them. If you look at the year-to-date column, they are both outperforming. Similar story for Lazard and Garcia Hamilton. Again, looking at year-to-date, both have slightly outperformed for different reasons, especially Garcia Hamilton. Garcia Hamilton is more of a mortgage and agency manager, but they have done well in security selection. And again, you see the outperformance.

For the majority of these managers, fixed income, if you look across one year or three year, they've consistently added value relative to their benchmark. If you go all the way out to the far right since inception, Weaver Barksdale, 5.91 verse 5.47; Logan Circle, 4.04 verse 3.69; Lazard, 3.4 verse 3.1; Garcia Hamilton, 4.2 verse 2.9. Good incremental return being generated by these active managers in fixed income.

That was a pretty quick overview of your portfolio. There is no recommended changes at this time. Again, your portfolio year-to-date is up 6.65 through the month of August.

CHAIRMAN SCOTT: Thank you very much for the report.

Actuary Report, Tom.

MR. VINCENTE: Does everybody have a copy? I brought some extra if you need it.

(Passes around copies)

Just as we get into it, this is the annual review of the plan from an actuarial perspective. This report is designed to update the pension liabilities as of June 30 of 2016, which computes the cash funded position as of June 30, 2016, and projects out the cash contributions requirements for the coming year, the funding policy adopted by PGW for the plan. We will get into the specific pages.

But just as an overview, there were two big movers to the numbers this year versus last year. One is that the actuarial assumption around long term rate of return was moved down from 7.65 percent down to 7.3 percent. That had a material impact on the liabilities. We are using that same percentage to discount the future payment streams back to today's dollars. And that 35-basis point change does have a material impact on the liability numbers.

The other item having impact was that as opposed to nice numbers that we just heard about, the period ending June 30 was not as robust. And the returns for the year in June 30 did not hit the 7.65 actuarial assumption from prior year. We underperformed from that basis. And so, we have an actual loss there. Those are the two item that contributed to the results this year making the plan somewhat more underfunded than it was.

The good news is from a demographic standpoint, that is what happened with salaries, what happened with turnover, retirement patterns, hiring patterns, those all were overwhelming within what we considered normal patterns. We were off by what we expected to be by less than 1 percent. Generally speaking, with a group this size, a deviation of plus or minus 3 percent is usually considered within the norm. We were less than 1 percent off. From a demographic standpoint, that all seemed to match pretty well.

MR. RUBIN: How does that -- when you look at the comparative summary principal evaluation results that says 4 and a half percent on the total payroll?

MR. VINCENTE: So 4 and a half was a change in the payroll from year to year. But what that is telling us is that we are expecting to see a decline in payroll from year to year. Because of the way this plan is structured, the way PGW is structured right now, when new employees are hired, they are given the option of joining this plan or joining a defined contribution plan. About one third or so up to 40 percent of the folks that join this plan versus those who join the defined contribution plan. We are expecting over time for there to be attrition in this plan.

MR. RUBIN: So then, that means our numbers are going to go upside down, right? So, we are going to have a lot more people that are going to be looking to collect a benefit and a lot less going in.

MR. VINCENTE: Correct. We are already in that position. If you look at the top of that, Page A, the comparative summary of principal evaluation results, we have 1,251 active participants currently versus almost 2,200 retired.

MR. RUBIN: Do we have a chart that tells us when we think that's going to be a major issue that we should be planning for now?

MR. VINCENTE: Well, we are planning for it now in that the cash funding structure is designed to bring the plan to full funding over a 20-year period. That that's what we are funding right now. So that's -- where it becomes a major issue, and right now when we got to the contribution section, that's what we are contributing. And I guess major issue is hard for me to say. The contribution is a percentage of this payroll is very high. If we want to just turn to the next page where we have the contributions, that the 20-year contribution is 32 percent of the payroll.

So to me, if I was sitting here -- if that was my whole budget, and I was paying 32 percent towards pension, I would think that's a pretty stiff percentage of my overall budget. But knowing that this payroll is not the full payroll of PGW can temper that a little bit. Probably the thing that says to me as an actuary is that assuming the resources of PGW to finance this plan are somehow parallel to that payroll level and these contribution levels, it would mean that we are probably more sensitive now to adverse investment results then we ever have been in the future. Payroll changes. Sometimes in the past, things like a big jump in payroll would have been big driver of pension cost changes.

That is going to be much more minimal now given the way the demographics of the plan are. And are much more sensitive to movements in investment returns.

MR. RUBIN: Would it be fair to say that this group is being proactive knowing that that's going to come later, and taking proper actions to make sure that we're able to fully fund the pension?

MR. VINCENTE: I think so. PGW has always made the recommended actuarial contributions. There's been no skipping of the contributions. We making the assumed rate of return of the future more conservative at 7.3 is a good step, as well. We are not overstating where we think things are going to go. We are staying current with long term rates of return are.

It looks like from review we just went over, we are still around 60 percent, in return seeking assets about 30 percent in fixed income. I'm not sure where that puts us in terms of sensitivity to returns. Certainly varies by the type of investments that are there. We are protecting ourselves somewhat by adopting a more conservative set of assumptions around investment return of 7.3. Certainly, not the lowest in the country at 7.3, but we are moving -- by doing that, moving to a more conservative posture.

Just back on the first page, this is a -- other items to point out. As was mentioned, the total payroll is down about 4 and a half percent. The actual participant count is down about seven-tenths of a percent. Generally speaking, what we are saying there is that the -- retirees will -- numbers will change as folks pass away replaced by new retirees, which are invested. Those are folks who have left PGW. Not yet elected to start their pension. That number is relatively small. Indicating most individuals stay to retirement, and the number of active participants is shrinking. And we do expect that number to gradually wear down where eventually it will hit point of stability at some point with the replacement patterns we are seeing.

MR. DiFUSCO: Do you have an idea for that?

MR. VINCENTE: I have not run those figures, no.

MR. MAZZA: In terms of the average age, Tom, in terms of other pension plans you cover, where do we fit in? Do we have younger folks in our plan?

MR. VINCENTE: It really depends who you compare yourself against. If you look at general population, the 44 -- almost 44 and three-quarter age is not that different. Probably a hair younger than we see in a lot of public sector, governmental organizations where you tend to have a lot of long service folks who stay for a long period of time. If you compare it to a public safety type plan, then you will see your age is probably a little bit higher because public safety tends to be a younger group.

This group does have a relatively early retirement age at 60/62. A lot of folks do got out at that age, which keeps average age on the other side.

MR. RUBIN: That factors in your 30 and all, as well?

MR. VINCENTE: Yes.

MR. DiFUSCO: Just one other question. You mentioned increased sensitivity to investment returns. You may recall, I'm sure you recall a couple years ago we had unexpected spike in the number of retirements which had a huge downward impact on the plan.

How vulnerable do we remain if we had another situation like that where if your numbers were significantly off, we had an unforeseen rush to the exits or something? How vulnerable are we in terms of fund level to kind of an event like that?

MR. VINCENTE: So the active group -- just take a quick look here. The active group makes up about a third of the total liability.

MR. DiFUSCO: Okay.

MR. VINCENTE: So if that group were to increase liability say 20 percent, that's 20 percent on a third. So what's that? That's about 8 percent increase in liability.

MR. DiFUSCO: Okay.

MR. VINCENTE: Liability is pretty big. If you want to call that an $8 million -- the liability itself is about $800 million. So if you said it was a 10 percent increase in liability overall, that would be $800 million that had not yet been funded for. Essentially with this plan, there is a -- there is -- we are funding based on assumption that people go out in a certain pattern. If they accelerate the retirement, we have less time to fund for them. We are funding more quickly.

That's what's going to happen in this case. We are making payouts earlier. The early time reductions are not -- not enough of an offset to the accelerated payouts. That's why we have extra liabilities to fund.

MR. MAZZA: Any recommendations to increase cash distribution to prevent against something like that? Or think our cash distribution is fine?

MR. VINCENTE: I think our cash planning position, I believe PGW, when I talk to folks there in human resources, they have a good handle on when people retire. People generally give them notice on a fairly regular basis. They have a good sense for how that's going. They are well aware a couple years ago that that spike was occurring and why. They -- actually, I talked to them a couple times recently about what they're seeing now. They are not seeing any sort of continued spike there. It's really more back to business as usual.

Usually with different groups, when the parts of this group is covered by union contracts, depending on how the union contract is negotiated, how long sometimes the contracts run out. And they are usually waiting for the new contract to expire to be updated. Sometimes you will see a pause in retirement in those situations, and then there's a catch up on the new provisions are known. As far as we know at this point, that is not an issue. We are not seeing a new backlog. We are not aware of backlog occurring.

MR. MAZZA: I am just bringing that up because the spike that we had, there was nothing guaranteed in that. That was just pure speculation. So speculation happens again, just want to make sure.

MR. VINCENTE: Right.

MR. RUBIN: Sounds like what you are

saying is they are monitoring that and they know the pool of people that would be eligible.

MR. VINCENTE: Right.

MR. RUBIN: I would think -- what's the contract, another two years before --

MR. LEONARD: Yes, 2019.

MR. RUBIN: '19? I guess '18 going into '19 where we might see another spike.

MR. LEONARD: We would expect to see a spike in December of 2018 in the calendar year if there were to be a spike.

MR. RUBIN: We can plan for knowing that that might be the time.

MR. VINCENTE: And the retirement rates we use in this, we use assumption about when folks retire based on age and their service. That's based on gathering information over several years, which should include various other spikes. We did not include the effects of the spikes from a couple years ago with regard to discussion of possible sale of PGW, so that's very unusual. We don't want to plan that as recurring regularly.

But the sort of normal spikes may occur

with contracts that's embedded in our figures. So you're averaging, so to speak. Perhaps some years where expectations more retirements that actually occur, other years be less. The idea is on average we are capturing what the overall behavior will be over the period.

Again, back to the second page, we talk about the contribution ranges. The policy is that we -- that PGW contributes the larger of the cost assuming that either there is what we call a 20-year open amortization or a 30-year closed amortization period. We are taking -- we are funding what's called the normal cost, which is up at the top of the page. That's costs being earned a year. And there is also funding to pay down the unfunded liability over a period of time.

Traditionally, PGW is what they call a 20-year open amortization period. Every year we did a new 20-year amortization. We are always 20 years away. Last year the decision -- two years ago was to, say, let's continue that but let's lay into that what we call a 30-year closed amortization. Meaning, 30 years would count down over time.

What that means in the short run is that for at least the next -- first 10 years, the 20-year amortization would be the larger number. That's what the contribution is based on. After about 10 years, the 30-year structure will start to potentially kick up and be a little bit larger. And we'll start to see that take over.

The bottom line is, the plan is being funded in a way that will diffuse the liability over time assuming the one thing we, of course, know is not going to be crap, which is that every single assumption we make in this plan will always come true every year. Which is investment return and retirements rate and term rates and so forth. There will be ups and downs. We will see little dips and rises. But more or less, that's what's going on there.

So under the funding policy, not just under 32 percent of payroll of this group is what's designated as the contribution for the company.

CHAIRMAN SCOTT: PGW, of course, is doing 7.9 million. And they are also on the annual basis funding 28.6?

MR. VINCENTE: They are funding -- the 28.6 includes 7.9.

CHAIRMAN SCOTT: Okay.

MR. VINCENTE: They are doing the 28.6.

CHAIRMAN SCOTT: Thank you.

MR. VINCENTE: You will see in the bottom of this page, there is a summary of what drove that number as it changed from 2015 to 2016. "A" talks us about the discount rate change. That added about 2.6 percent of payroll, about $2.4 million to the annual cost. We mentioned the investment returns being less than the 7.65 percent assumption. It was actually -- so that increased the contribution as well as by about $800,000.

One thing that was also part of the funding policy that was implemented a year ago was that we are going to implement what they call an asset smoothing method. So in the past, we always just used the market value of assets. A lot of volatility in that number. You invest in the market and you're looking at them one particular day. Could be up. Could be down.

That could put a lot of volatility in the contribution figures.

Decision was made at the time to use what's called a five-year smoothing method. We essentially phase in investing result that deviate from the market return over a five-year period. Essentially, 20 percent per year.

So this first year when we had poor experience, we are only recognizing 20 percent of the poor experience which is how we hold down the contribution increase. Next year we will recognize another 20 percent, year after that and so forth. We recognize the full thing over five years. The hope is that over that five-year period, you have good years and bad years. And they essentially offset each other avoiding volatility in the contribution figure.

CHAIRMAN SCOTT: Let me read that. It says the investment return for the period ending June 30, '16 was approximately 4.6 million, but should have been 38.2?

MR. VINCENTE: Yes.

CHAIRMAN SCOTT: Am I interpreting that part right?

MR. VINCENTE: Correct. It was a minus 4.6, so a negative return.

MR. BUTKOVITZ: I got a question for Chris. We are doing better here than in the regular pension fund while making more conservative assumptions. Is there any -- would we do better if we copycatted some of the strategy in the other funds?

MR. DiFUSCO: Without getting too far outside my job description for the other pension fund, I will say that I think when you see the asset allocation in September that's being proposed for the large plan, you will see it moving in a direction that is similar to your question. I think you will see -- and based on some of the decisions that you and the other trustees made last month in terms of jettisoning some of the more aggressive fixed income investments and things, yes. I think we are already doing that. I think you will see more of that.

MR. BUTKOVITZ: Okay.

MR. RUBIN: Very poetical about that. You are learning.

MR. DiFUSCO: Thank you. Hopefully, that was all captured perfectly.

(Group laughter)

MR. VINCENTE: Any other questions on this pension issue?

MR. DiFUSCO: How did -- how if at all -- we also, Tom, in the last year staffed PGW, the Commission, we moved to rather than funding, getting a once-a-year deposit from PGW or, excuse me, having them advance most of the benefits, we now get a monthly contribution.

How does that impact from a timing perspective now that we get money every month from PGW? You know, we get money and -- does that impact from a cash flow perspective? How does that affect your numbers?

MR. VINCENTE: It doesn't really affect our numbers. If you notice on where we talk about the 20-year contribution, we say indicated mid year. We are assuming mid year is when the money comes and basically evenly over the course of the year.

MR. DiFUSCO: Okay.

MR. RUBIN: Can you explain, C, Tom?

MR. VINCENTE: Sure. That's demographic changes. This is what I mentioned demographic variation was relatively small. So what we are seeing here, the big deviations from our assumption were; number one, we have an assumption that salaries will go up by 4.5 percent per year over a career. We are looking at one-year period. The increase has gone up for people who are there, both end points, increased about 0.2 percent on average versus 4 and a half percent. That was to the plan's favor. A smaller increase in liability than we otherwise would have expected because payroll went up. This is a payroll-based plan. This is the active liability.

There are, as well as number of active folks, 166 of them here, with 30 more years of service who are now eligible to full retirement. They remained active versus they could have retired. So that, we talk about the timing of retirement. So, they didn't retire -- all of them didn't retire. We assume some of them would. That was favorable to the plan. That's favorable to a 0.3 percent of liability.

So, those were the two main drivers in terms of we talk about demographic ups and downs. Those are the two things that led to the more positive essentially at 1 percent, want to call it, underperformance of the liability. Liabilities were better than expected by about 1 percent. These were the two main things. Payroll going up less, less people retiring and otherwise assumed who can go out to full retirement.

MR. RUBIN: So that the bottom line there says the annual contribution was 625,000 less.

MR. VINCENTE: Right.

MR. RUBIN: By PGW to the fund.

MR. VINCENTE: Well, no. This $28.7 million would have been 625,000 higher if we had not had these two things occur.

MR. RUBIN: Right. They put in 625,000 less.

MR. VINCENTE: This is prospective.

MR. RUBIN: Than what we would have assumed they would have.

MR. VINCENTE: Right.

MR. RUBIN: Based on the equation here. When that happens in the main fund, the City puts that money in to reduce the liabilities, Chris? Or where they put extra money in to make this closer?

How does that -- I guess my question is, should we ask them since they would have been looking at that number anyway, to put that into lower the gap between fully funded.

MR. DiFUSCO: I'll have to pull the main funds actuary report, Bill. But offhand, no. I don't think they would -- the City would put that extra money in offhand because I think they would do something similar in that if the liabilities over the 30-year term that we measure in the City fund decrease, then by some corresponding amount the contribution or the expected MMO would drop very slightly, as well.

I think. Don't hold me to that till I pull it.

MR. RUBIN: They put extra money in, that's just separate and apart from this equation?

MR. DiFUSCO: I believe so. I can

follow up with you on that offline. I think that's right. I think we do something similar in that regard for both plans.

MR. RUBIN: Is it fair to ask PGW to put that money in?

MR. DiFUSCO: I mean, it's always fair to ask if the employer has the capacity to add more money. Whether or not they do or want to or legally required are obviously separate questions. But --

MR. RUBIN: Was it budgeted in?

MR. DiFUSCO: I don't know. You're going to have to ask Dan on that.

MR. RUBIN: Was that budgeted in?

MR. LEONARD: This was not budgeted in. In fact, it's going to go -- compared to go -- expect to increase by approximately $2.5 million because of the decrease in some earnings from 7.65 to 7.3.

MR. RUBIN: This would lower the burden that that was going to put on the company. Instead of being that 2.5 million, now it will be 625 less.

MR. LEONARD: It's not 625 less.

It's -- we are still contributing $2.5 million extra. We would have contributed to $3.1 million extra had the liability not --

MR. RUBIN: Okay.

CHAIRMAN SCOTT: I think I am missing something, so you guys can explain it to me. Remember I'm new. I'm still focusing on, B, I guess under comparative summary.

MR. VINCENTE: Right.

CHAIRMAN SCOTT: We had a negative return for a year; is that correct?

MR. VINCENTE: Yes.

CHAIRMAN SCOTT: So, am I looking at the wrong fund? Because I'm looking at one year. All these things are positive.

MR. AMMATURO: That's August.

MR. DiFUSCO: They are measured as of July.

MR. VINCENTE: June 30.

MR. DiFUSCO: Excuse me. Thank you. As of June 30. I don't have it in front of me, but as of June 30, the numbers --

MR. GOLDSMITH: Was slightly up, I think.

MR. DiFUSCO: Slightly up over a year.

CHAIRMAN SCOTT: For the year we had a negative return. Is that --

MR. DiFUSCO: Well, we had a negative return I think in terms of how Tom is defining it actuarially, correct? Because the return was actually, as I recall, slightly --

MR. GOLDSMITH: I think it was slightly on the down side.

MR. VINCENTE: If you can turn to page 6 of the report, the numbers are on the inner left-hand corner at the bottom. I know they are a little hard to see there. If you look at page 6, it says what we put together for the fund.

So we have as of July 1, '15, we are $510 million. You will see the receipts we have there, employer contribution and employees contribution. And then the disbursements coming down to the $483 million we had in July 2016. So, this is a good time. We do gather this information from a number of sources, so it's possible there could be some disconnect. It's a good time to verify that's right or wrong.

From our standpoint, what's important is that we understand the number -- the amount of contributions that were made to the plan. And you will see there the employer contributions total about $28.6 million; $600,000 to the employee. The employees in this plan are required to make a contribution to accrue benefits.

We see the benefit payouts, $50.4 million. That's for all purposes, returns in employee contribution as well as monthly annuity payments to both retirees and surviving spouses or other beneficiaries. And then administrative expenses. The number we are provided as well for our money that's paid to cover the cost of the plan.

That's where our negative $4.6 million comes from. The 4.8 -- the $48.3 million is from the Flash Report we received. It's not from an audited statement. Sometimes there's some adjustment to those figures. There is accruals and things like that that could be added or subtracted out. But that's our understanding of the returns of the fund for the period in June 30, 2016.

MR. DiFUSCO: So, I guess this is where the confusion -- I just pulled up the June, the Flash Report. So as of June 30, 2016, according to the Flash Report we presented at the last meeting, the returns were up slightly for the year 0.19.

MR. VINCENTE: Okay.

MR. DiFUSCO: This is showing 0.93, so that would be over 1 percent difference. So I guess I -- how did you arrive at or how did you they arrive at almost 1 percent decrease as opposed to a more flattish number?

MR. VINCENTE: What we did was we had the $510 million from last year.

MR. DiFUSCO: Okay.

MR. VINCENTE: We got the Flash Report from the Sinking Fund that shows $493 million. We got the employer/employee contribution as well as the benefit payments and administrative expenses from PGW. The only thing that's left when you have all those figures is to back into the investment, so that's what we do. We back into the investment of the plan.

You are looking at the -- so the things

that could be different could be the -- you say 493 million versus 483 million.

MR. DiFUSCO: No. It shows the same --

MR. VINCENTE: Still 483.

MR. DiFUSCO: It's still 483. Just showing investment return performance over one year at 0.19. This is showing at negative 0.93.

MR. VINCENTE: Things that could be different -- I don't know what could be different. We have the benefit pay -- when you look at it, we don't try to break those investment returns down for purposes.

MR. DiFUSCO: Right.

MR. VINCENTE: We know what adds in and subtractions out are. That only leaves investment return and expense.

Is it possible that the administrative expenses are lower than they are? I don't know. We can certainly sit back and talk to you about that.

MR. DiFUSCO: Should talk on that.

MR. VINCENTE: These are the figures we were provided. We don't audit that. They seem reasonable.

MR. DiFUSCO: Okay.

MR. VINCENTE: Bottom line from our perspective, with a little bit of a caveat is that the driver is not necessarily what that investment return figure was, so much as what the asset value was at July 1, 2016 the $483 million. So that number is right. Yes, there could be a little bit of deviation if it turns out that -- if we have a number here.

Say the benefit payments, there was something included in the benefit payments that shouldn't have been, or something that's being missed there. Say there is an extra million dollars of benefit payment that just wasn't included here for a hypothetical. If that should have been $51 million, that means the investment return would have been a million dollars better because that million dollars is coming out investment return today. It will have a small effect because we are smoothing the investment return over a five-year period, but it won't have a big affect on these numbers.

We should certainly iron out what the differences are there.

CHAIRMAN SCOTT: Do you have that number investment returns going back three, four years?

MR. VINCENTE: What the actual return was?

CHAIRMAN SCOTT: Yes.

MR. VINCENTE: I don't think we have it in this report. I have a cheat sheet here.

CHAIRMAN SCOTT: I am trying to figure out what the trend is.

MR. VINCENTE: You know, it's been both up and down. I do not have that here. There is definitely been years where -- go ahead.

MR. AMMATURO: I have it. 2015 was negative 0.49; 2014 was positive 6.91; 2013 was positive 18.04; 2012, positive 11.7; 2011, negative 0.66.

MR. GOLDSMITH: Those are calendar year?

MR. AMMATURO: Calendar years.

CHAIRMAN SCOTT: Thank you.

MR. VINCENTE: I guess back to page 2. Other than resolving the question, did we answer the question you had?

CHAIRMAN SCOTT: You did.

MR. VINCENTE: Okay. Any other

questions on page 2, the summary of the -- just moving ahead if there is no questions, a lot of the intermediate pages are details of the calculations. I wasn't going to go through that unless people really want me to. We want to flip ahead to page 12.

Page 12 shows the expected future cash payouts for the plan. We are expecting, based on our assumed patterns for retirement in the future that in the coming year, the year beginning July '16 through June 30, '17, we had about $52 million in benefits including beneficiaries and retirees. And you will see how that number evolves over the ten-year projected period if all our assumptions are met. Topping out at about $62 million in 2025.

That just gives you a sense for what the cash demands and the plan will be in the future. And you saw the cash contribution levels were expected to be in the $30 million range. So, there is more going out of the plan than there is going in, in terms of cash flow. So, that means that the extra amounts coming out of the benefit -- out of investment returns and coming out of the principal, which you expect of plans that had the demographic structure of this plan is where there is many more retirees than there are active employees. The plan is demographically in a place where we are expected more of a draw down in the plan because there is so many more retirees than there are active employees.

If we turn to page 13, page 13 gives you some history of the funded status of the plan. So looking at the chart, the red bar show the liabilities. So, we calculated the current value of future payouts. The blue line is the market value of plan assets. And then the black number tells you what percentage funded that is. This goes back to 2008.

So before the market correction in 2008, we are about 87 percent funded. Like many plans, the following year, the plan was much less well funded, began climbing. This year we go from 72 percent last year down to 65 percent this year. The big driver, again, remember here is that we changed the expected return at the expected discount factor of 7.65 to 7.30. That boosted the liability, which hurts our funded ratio. And we had the investment performance which is less than the 7.65 percent return. Lowered the assets compared to what you would expect them to be. That causes that retreat from 72 percent to 66 percent funded in the plan. So something we did by assuming a more conservative posture. Some of it because of the way the market performed. The top of the page are the numbers that go with the graph.

If we want to turn ahead to the page 16, page 16 gives you a ten-year look forward on cash contributions as well as how we expect the funded ration to evolve over time. So we expect the con -- the fund we are funding over a 20-year/30-year period. You will see in the chart at the top, the funded ratio does increase over time, though, very gradually.

You will see it goes down over several years from 70 percent. It goes down in the 69 percent range. That's because we are phasing in those investment losses from this past year where we didn't hit the 7.65 percent. I mentioned it's a five-year phase in. As we phase in, this chart assumes we are only going to get 7.3 every year in the future. There is no offsetting actuarial gains. That is why we see a decrease in the funded ratio because it was the ratio based on smooth assets. As we phase in those lower -- that return from the prior year, it brings the fund ratio down a little bit, and then we start to go back up. So very gradual, which is what you expect to see with what amounts to a 30-year payout on the plan. It's not going to be a sharp increase in funded ratios.

If everything meets our assumption, we will have a very gradual increase. And will over time gain some momentum, but it will have been very gradual in the beginning.

MR. DiFUSCO: And, Tom, the reason why the funded ratio date is 7/1/2016 on page 16 differs from what's on page 13 is because on page 16 you are using the smooth calculation?

MR. VINCENTE: Correct. Yes.

MR. DiFUSCO: 13 is under the old system?

MR. VINCENTE: Yeah.

MR. DiFUSCO: Okay. Thank you.

MR. VINCENTE: That is the projected cash contribution. Starting back on page 19, we have a breakdown on a lot of the demographic information, so by the age and service and payroll levels. So we had some folks asking about, you know, it's very interesting. We have got quite a number people for -- these are page 19, I should say, the number of retirees.

So, we have 138 retirees or their beneficiaries who are over 90 years old. There is a death audit that's done every year by both of the folks writing the checks, paying the beneficiaries as well as ourselves. These, at least, don't show up as a death audit as deceased. These are legitimate individuals 90-plus years old receiving pensions.

Going to the next page 20 is a similar age service chart for physically active employees. When you look at this, you will see from a group this size from our perspective, we actually have very few folks over the age of 65. So, the ages are the horizontal access. We only have 16 individuals who are aged 65 or older. We talk about people retiring and when they are retiring. This group tends to go out "on time." They don't stay to a very old age, which you might see in some other professions or groups where they are a lot more 70 year olds. In this case, is a relativity small number.

MR. RUBIN: What's the number underneath the number of participants?

MR. VINCENTE: That's the average payroll for that particular group.

MR. RUBIN: They're payroll, not the --

MR. VINCENTE: Right. Where you see it -- see somebody that is eight people in the $45,000 figure under that, that means eight people average pay is $45,000. Not that many at a very high service. Not that many at older age. You can see that graphically on page 21, the active head count by service.

You will see that the biggest service component, the 5 to 10 years of service; 25 to 30 the next year. The next biggest. Not that many after that. Bit of a dip in the middle or reflects hiring patterns and turnover patterns. That is the main results here.

Starting back on page 23, we have all

our assumptions and methodologies. We are using an up-to-date mortality table. The most up-to-date we have from society of actuaries this group. The size of it is incredible enough to develop its own mortality or longevity statistics.

We have a set of table from Society of Actuaries. We use a turnover in the retirement table that is based on the group here. We do update that every three to four years. It is updated just a year or so ago. No update right now. With our demographic losses and gains being relatively small. It seems to be borne out at least in the first couple years.

I will stop there. That is what we had presented.

CHAIRMAN SCOTT: Thank you. That was very interesting.

The next item is the Investment Policy Statement Asset Allocation Review.

MR. GOLDSMITH: Sure. This was something, if you recall, we discussed at the last three meetings or last two meetings and then today, as well. So, I think we will just go back and kind of cover what's been discussed and the summary level, and set some next steps. If we turn to the asset allocation tab, I think I will begin with the actual asset allocation which is towards the back of this section. You see the colored sheet dividers. After the last one is where the asset allocation analysis can be found.

Mark has it.

MR. AMMATURO: It's called Philadelphia Gas Works Sinking Fund Commission Asset Allocation Analysis. It's that same section but further back.

MR. GOLDSMITH: You will see the teal sheet dividers. You are in the middle of it now.

MR. AMMATURO: There it is.

CHAIRMAN SCOTT: Thank you.

MR. GOLDSMITH: And what this was is it's a projection, a forward-looking projection of expected return and risk of the current portfolio and several proposed alternative asset allocations. This was something that we wanted to do once we began our consulting relationship with the Sinking Fund. We wanted to get in and look at current allocation and maybe some alternatives and where that would take the portfolio.

So again, just to refresh, it starts off depicting our capital markets assumption. This is our expected return and volatility risk for various asset classes both over the intermediate term next five years and the long term, which is 30 years in the future and beyond.

CHAIRMAN SCOTT: Where are you now.

MR. GOLDSMITH: I am on page 2. Page 1 depicts those graphically. Page 2 you can see the numbers. Five years in the left, 30-plus on the right, and then the expected return, expected volatility for each of those asset classes.

These are the input that go into our asset allocation analysis. Flipping ahead now to page 4, you can see across the page are the various portfolio alternatives. The farthest left is the current targets for the Sinking Fund. And the four to the right were alternatives that we both brought to the table to discuss. You can see the weights of each of the asset classes from those portfolios. The equity component, fixed income, and then alternatives which are not in the portfolio today. We do not agree to add those back at the May meeting when this was initially discussed, but the three portfolios to the far right: PFMAM 60/40, 65/35 and 70/30. You will notice that those do have some alternative allocation to private real estate and private equity. We wanted to model that out potentially for the future and see what included in those illiquid alternatives could do for the portfolio.

Below that you see the output of the simulation. Expected return and standard deviation. That's the projected return for each total portfolio and the expected volatility of those portfolios. I think something -- and then below that, the probabilty of achieving various discount rates. Initially when this was done, it had not been agreed to lower the target rate of return from 7.65 to 7.3. That's all been done now. And you can see the chances of achieving those rates of return over five years for the intermediate assumption and 30 years for the long term.

I think one thing that's very obvious

from looking at this is that we expect returns to be challenged over the intermediate term. I think with fixed -- with yields on fixed income very low and expected to rise, that will challenge bond prices. While the markets been cooperating this summer, its valuations are very high. As we discussed earlier, there are some headwinds in the form of geopolitical risks. And we discussed the Brexit decision last meeting, as well, that posed some headwinds to global equities. And so, that's where we think are the return expectations meted over the near term.

So, this was originally presented in May. And what was, you know, agreed upon was to move from the current targets to that second column 65/35 no alts. We weren't quite ready to dive into the private real estate or private equity. But what was agreed upon was diversification of the fixed income bucket.

I think you can look at, you know, the first column to the second column within that fixed income section. You will notice the introduction of some other subasset classes, investment grade corporate credit, emerging markets debt, high yield and floating bank loans were also modeled.

What we agreed upon, I believe was agreed upon in May, was to include investment grade credit, emerging market debt and high yield in the portfolio. And to issue RFPs for those asset classes, some asset classes.

Another difference between what is showing in the current portfolio, in that 65/35, is a shift somewhat away from domestic equity. From 50 percent domestic equity to 42 percent. And I think that's a reflection of where the domestic equities portion of global market cap. It's closer in line with what domestic equity represents within the entire global equity universe. Commensurately, increase in emerging markets equity target, as well.

So that PFMAM 65/35 is where we agreed to go with the exception of the bank loan. I believe that piece was not agreed upon. And so, if there are any questions, we can answer -- address those now or then go on to the next step, which was the investment policy statement.

So obviously to diversify the fixed

income and eventually to perhaps to add some alts down the road, the investment policy statement would require some updates. It could have been just simply allowing for foreign domicile fixed income, allowing for below investment grade fixed income to allow for some of the credit and high yield options. And we could have added that to the existing document.

But in looking at what has been governing, was prepare by Gallagher in connection with Sinking Fund, I think we wanted to take this opportunity to make some more broad wholistic changes to the document. Get in the framework, I think, we would recommend for this portfolio going forward for the long run. And so, that was discussed at the last meeting in July. We had brought in the redline IPS and discussed -- we went through each change at a close level, but also we discussed the high level themes. So, I could introduce those today of the general thematic changes.

I think the first one was a simplification of the asset allocation targets, so removal of dedicated small cap and large cap equity targets. What that does is it -- at the same time also broadening the allowable ranges. If you want to take a look at this, you can actually flip through to page 3 of the redline investment policy statement. And you can see about halfway down the page, it's highlighted in grey. But this was the new proposed asset allocation target. Down below it is lined out. You can see there's dedicated small cap and large cap targets. The ranges, the allowable ranges are also smaller.

And so, by going to a total domestic equity and a broader range for the portfolio allocations, this makes it a more usable framework for taxable asset allocation. I think this was discussed, as well. We wanted to lower increases international equities, for example. A broader range allows that to be done. I'm not saying we would do it, but it allows for that to take place without being noncompliant.

I think if you look down below to what's crossed out, you can see the ranges for international equity. It's currently a 15 percent target with a minimum allocation of 12 and a maximum allocation of 18. That's a pretty small range of just 6 percent you can work with there. And so, you know, it's -- that was one of our broad thematic changes. In minor change that accompanies this, would be a change of the benchmark weightings to align with the new -- the new targets.

Another change that -- another broad thematic changes to this document is a shift from an inclusionary framework of what was allowed in the portfolio to exclusionary framework. So, the previous documents said these investments are allowed in the portfolio. And a lot of it is you can look at page 4 and page 5. It's all crossed out now. But I think by both -- further on in the document, actually, there is a section that lists excluded investments. So, it gets a little confusing when you have both included and excluded and there are a range of investments that aren't mentioned a at all. Where do those fall?

I think the approach we took to the edited document is to go to an exclusionary framework explicitly listing what you do not want in a portfolio. And so, that's what changed.

And the last of the thematic changes pertains to diversification requirements. These are things like what percent of the portfolio can be in one individual security, one individual sector, one individual country for international equity. And currently, those requirements apply at the individual manager level. So, a manager cannot have more than X percent in high yield or, in this case, no below investment grade securities. In our edited document, we proposed changing these restrictions to the total portfolio level. The total portfolio must be -- if I can look for where this is. I believe it's on page 7 of the edited document.

So, you can see what's been crossed out down below -- halfway down the page. No more than the greater of 20 percent or three times the applicable benchmark index weighting in one market sector. That's essentially limiting the amount you can have in one sector, like, consumer discretionary, utilities, telecom, and then applied to each manager. We wanted to have that go to the total portfolio level. That's what you see up above. No more than greater of 5 percent or the weighting in the relative index maybe in one corporation. No more than 40 percent in any one sector. And by moving that to the total portfolio level, it allows for the inclusion of potentially concentrated investment manager, that maybe you get concentrated in a given geography or they might have overweights to certain sectors that go beyond the 20 percent limit as previously -- as was previously set.

It doesn't mean that those managers will be put in the program, in the portfolio, but it allows for those types of funds if we feel that concentrated manager could have value portfolio. Another example is some concentrated manager, as I mentioned, would be dedicated high yield funds within fixed income. Currently, below investment grade is prohibited. That's one element. Even if, you know, we wanted to have concentrated high yield funds, you know, I think that by moving the restriction to the total portfolio, just a lot broader portfolio management.

So, those are the three main themes. And what follows, I think, when you get beyond page 7, you get into the -- we have the exclusionary what we don't want in the portfolio. And then beyond that, I think at page 13, section 5 the objective section, I mentioned that slight changes were made to that to the total portfolio benchmark. And then we also felt that this document was overly not necessarily restrictive, but just maybe overstepping it's bound by setting benchmarks for every individual subasset class.

When a new manager is hired, there are investment manager agreements that are set in place. We feel that those investment manager agreements are more appropriate to set individual manager performance guidelines and benchmarks. That's just the four themes. I wanted to lump that in with the first one.

So, this is where we are. I know we received a couple of questions after the following meeting. I think we addressed some of those offline via phone calls or various meetings in the last two months. I think the logical next step would be to get some comments back from the Commission or from staff either in the form of you can have an email or redline exchange or an executive session to sit through and, you know, really line by line hammer out what this document should look like. And I would expect some feedback from you. These are our thoughts about what should be excluded from this portfolio, but I think we would like to hear your comments back. I think we have a framework potentially for private investments to be included. You can do that now rather than amend this two years down the road again. Maybe that's not in line with what the Commission is thinking or staff.

MR. DiFUSCO: In terms of next steps, you would like staff to perhaps speak to Commissioners offline and then kind of gather comments and feedback that we can then send back to you, and then have discussions, you know, one-on-one or whatever as necessary?

MR. GOLDSMITH: Uh-huh. Again, it can be some broad comments of the themes. Or if you are agreeance with the general structure, we can really get down to the nitty-gritty what is and isn't allowed in the portfolio.

MR. DiFUSCO: In terms of the timeline, you would like to have this back on the November

Agenda to incorporate all those comments and so forth and hopefully --

MR. GOLDSMITH: Yeah.

MR. DiFUSCO: Hopefully, then be able to move forward.

MR. GOLDSMITH: If we can reach some kind of consensus offline, that would be ideal. That would allow for the selection of some managers that are out for RFP and then their implementation.

MR. MAZZA: So, an executive session end of October you think would be appropriate?

MR. DiFUSCO: I will defer to the law department. If we are talking an executive session in the legal sense, I don't know that I think that's legit for an executive session. If we need an executive session in terms of staff talking to PFM or talking to Commissioners individually to get their feedback, if we mean the non-legal sense, I think that's okay.

I will defer to Ellen and Adam. I don't believe reviewing an IPS as a group qualified for a legal executive.

MS. BERKOWITZ: No, I would not think

so.

MR. DiFUSCO: We would do, you know, series of, you know, individual calls or meetings to incorporate feedback which we then present to the full group in November. Is that --

MR. GOLDSMITH: That was what I was inferring.

MR. DiFUSCO: I just want to make sure. When you use that term, I don't know what you meant.

MR. GOLDSMITH: I did not mean anything in a legal sense.

MR. DiFUSCO: Wasn't sure.

MR. GOLDSMITH: Is that -- is the Commission okay with doing that in terms of calls or discussion getting feedback, bringing you back in November?

CHAIRMAN SCOTT: Yes.

MR. DiFUSCO: Okay.

CHAIRMAN SCOTT: Thank you very much.

New Business Discussion.

MR. DiFUSCO: Thanks, Don.

I think most of the new business was covered in terms of the timeline. I think Marc and Alex mentioned there is a bunch of RFPs either received submissions that are closed or outstanding. I would envision that we would start to bring candidates to the Commission in various asset classes depending on where we are with the asset allocation as soon as November if we feel that we have a good consensus and good candidates and are in a position to move forward. If not, we would shoot for the January meeting. That was the main item.

And then the second item I just wanted to mention was that PGW provided -- you will see that's the last two tabs in your book -- the payroll summaries and the benefit summaries that have been requested. Obviously, if any questions on any of that, you know, by all means follow up with Matt, myself or Dan at PGW.

Those are the only two items I have.

MR. MAZZA: Can we get one out from you guys on how they might perform in any ways that going to either hurdle or beneficial to our plan?

MR. GOLDSMITH: We are in the government or our portfolio was in the government money market fund. Previously, the portfolio was in the Heritage money market fund. And the changes that were discussed, I think it goes back to 2014. And they will implemented starting October, I believe, is when they will take place.

But it's floating NAVs to money market funds. Money market funds historically is dollar in and dollar out. They are used for cash management. Some of them may hold, I guess, some slightly riskier securities. They have higher yields. And for those funds, there would be a change in governance going to a floating NAV to allow for the movement attributable to any risk in the portfolios as a result and also various redemption gates.

So if there was ever stress in the market, there potentially could be a lot of people looking to withdraw from the money market funds. There could be gates set up limiting liquidity, which is not ideal when being used as a cash management vehicle and benefit payments are coming out.

In addition, Wells Fargo was not allowing for those non-government money market funds or floating rate NAV funds we use to sweep vehicles. This really was no longer to be an option for the portfolio. We looked at what the options were. There were some funds, including some bank deposit funds backed by commercial deposits at Wells Fargo and, you know, the broad universe of government money market funds which are traditional treasury securities without the risk of the other floating NAV funds.

I think the -- comparing the yields for the bank deposit fund and the government fund, they were very, very similar. Actually, I believe at the time we looked at it, the government fund had higher yield than the bank deposit fund. Which is odd considering that while you expect the deposit to Wells Fargo to be very secure, there is a counter-party risk inherent in having deposits for Wells Fargo. There is some nominal level, additional level of risk in the bank deposit fund. But as I mentioned, their yields were lower at the time of the government.

MR. MAZZA: The fees were cheaper, I believe, as well.

MR. GOLDSMITH: The fees are also less

expensive for the government fund. There is less being done typically again. So, we felt that the additional risk was not necessary. The return was -- for the yields were appropriate, and the fees are appropriate, too. So it's -- we're in that -- the portfolio was in that vehicle and prepared for the changes to take effect.

MR. DiFUSCO: Thank you.

CHAIRMAN SCOTT: Any other comments before we adjourn?

MR. RUBIN: I just want to say that the -- I think we had a much clearer picture this year with the actuary report staff and Dan and Joe from PGW giving us background information on the retirees who are leaving. And I think we have a better feel for what we're trying to do to make sure the plan is solid going forward. I want to say thank you to the work that was done behind the scenes to make sure we have a better understanding.

CHAIRMAN SCOTT: Thank you.

This meeting is hereby adjourned. Thank you very much.

(Sinking Fund Meeting adjourns at 12:11 p.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

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