

Sinking Fund Commission In Re: January Meeting
January 10, 2018

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

In Re: January Meeting

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Wednesday, January 10, 2018

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This Meeting of the Sinking Fund Commission,
held pursuant to notice in the above mentioned
cause, before Angela M. King, RPR, Court Reporter
- Notary Public there being present, held at Two
Penn Center, 16th Floor Conference Room on the
above date, commencing at approximately 10:00
a.m., pursuant to the State of Pennsylvania
General Court Rules

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<p style="text-align: right;">Page 3</p> <p style="text-align: center;">A P P E A R A N C E S</p> <p>COMMISSION MEMBERS: Rasheia Johnson, Treasurer -- Acting Chairman Rebecca Rhynhart, Controller</p> <p>ALSO PRESENT: Christopher R. DiFusco, CIO, PGW Rosamond Howard, Controller's Office Alex Goldsmith, PFM Asset Management City Solicitor Representatives PGW Representatives</p>	<p style="text-align: right;">Page 4</p> <p>1 you know, period of growth for the first time in 2 a while. You know, most economies around the 3 world developed Europe, emerging Europe, 4 certainly in the Americas and Asia including 5 Japan, which has been sort of stagnating for 6 quite some time, have all exhibited signs of 7 economic growth, GDP growth above recent norms. 8 Certainly, U.S. we have had two quarters of GDP 9 growth now above 3 percent. We will see where 10 the fourth quarter came in. Early indications of 11 that holiday sales, travel were strong. We look 12 to see approaching 3 percent again would be a 13 good sign. 14 The tax plan and policy has been passed. 15 Certainly, lower corporate tax rates are better 16 for equities. And the holders of those equities 17 in a plan like this, you know, I think the 18 economic impacts of that tax plan, there is some 19 debate about how robust those will be. I think 20 certainly last week in Philadelphia, there was 21 the meeting of American economists. I think they 22 had a mixed viewpoint on how significant the tax 23 reductions will be in proving GDP growth. But 24 again, you know, the tail winds to the stock</p>
<p>1 - - - 2 (Joining Meeting already in progress.) 3 MR. GOLDSMITH: It was sort of uncertain 4 what the outcome would be if those candidates 5 were defeated. And the European Union looked to 6 be relatively strong for the time being and into 7 the future as far as we at PFM see it. The 8 breakup of the European Union, going back to the 9 Brexit in 2016, that would have been a 10 significant negative for international market. 11 So coupled with low valuations and the 12 ameliorating of those risks, you can see why it 13 was a good year for international markets. 14 Emerging markets actually outpaced 15 international markets. They led the globe. 16 Emerges markets up 31.1 percent for the full year 17 2018 -- or 2017. Again, largely on some 18 subsidizing political risks, but also a little bit 19 of a recovery in the metals mining and energy 20 markets. Emerging economies are typically more 21 tied to raw commodity production. And so, that 22 was a big driving factor there. 23 On an economic standpoint, you know, we 24 at PFM see the world in what's a synchronized,</p>	<p style="text-align: right;">Page 5</p> <p>1 market from the tax plan, we view that as a 2 positive sign. 3 Unemployment has ticked down below 4.2 4 percent. Wages and hours are also up. Consumer 5 confidence is at a 17-year high. We view the 6 economy here and elsewhere as fundamentally 7 healthy. The major risks, as I mentioned 8 earlier, are high valuations in the U.S. Despite 9 rising stock prices throughout the year, 10 valuations generally remained in check. As the 11 price rose, the top of the price earnings 12 fraction, the bottom -- the earnings component is 13 also risen which has allowed that to get to -- 14 even though the valuations are above long-term 15 norms, the spread has been kept in check now. 16 Here to start 2015, I think as of, you 17 know, I have the date as of 1/5 in my head. But 18 in U.S. market, is up 60/40 portfolio. Would be 19 up about close to 2 percent as of several days 20 ago. So, really a quick start to this year, you 21 know. And I think we want to keep an eye on 22 earnings to make sure that, again, pricings and 23 earnings to make sure valuations aren't getting 24 significantly out of line.</p>

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1 So, continued rising valuations are, you
2 know, head wind as well as continued political,
3 geopolitical risks. I think we still talk about
4 infrastructure spending plan here in the U.S.
5 Unclear what that would look like. That would
6 potentially be driver of economic growth. Was
7 also continued conflict -- Russia, Syria, North
8 Korea -- which represent the single biggest tail
9 event that can impact the portfolio like this.
10 We want to continue to monitor those events.

11 But again, the economy seemed healthy.
12 It's continued period of growth. We see it
13 fundamental exists.

14 Any questions on the markets of the
15 economy?

16 (No questions asked.)

17 MR. GOLDSMITH: I will move now and
18 cover the planned performance. Again, this is as
19 of November 30. Later today we should have the
20 final performance for December for year end. So,
21 I will send that to Chris to review. He will
22 send that around. I will cover the performance
23 as of November 30.

24 You can see the market value of the

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1 That's a position that we are watching
2 very closely given valuations, but also given the
3 outlook for fixed income, rising rates, see rates
4 have shot up a little bit today. The federal
5 reserve is expected to raise rates, three to four
6 times again in 2018. And the relationship with
7 interest rates and bond prices is such that when
8 interest rates rise, the price of your existing
9 bonds falls. And so, fixed income doesn't
10 necessarily represent as a great option for those
11 that want to move away from equity. So again,
12 that's why we really want to pay close attention
13 to valuations and price or rate drops in the
14 fixed income market.

15 I will move through the investment
16 managers. Within large cap, the bulk of the
17 assets are split between two index funds,
18 RhumbLine and Northern Trust, very low cost.
19 They mimic the performance of their benchmark.
20 That's a theme you will see in several classes in
21 the portfolio. But in large cap, it's typically
22 an asset class where active managers have fewer
23 tools, fewer abilities to outperform their
24 benchmark. There is fewer companies with more

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1 plan, \$540 million there. It's top left. And
2 the performance here is shown net of fee. It's
3 another good month on an absolute basis up
4 1.5 percent. Nice to see a slight outperformance
5 over the benchmark, which is 1.48. For the
6 quarter, it's not a calendar quarter. But prior
7 three months, you know, not another increase in
8 relative performance over the benchmark. And
9 then, also focus on the year-to-date column going
10 down. That's year to date through November 2017,
11 15.86 percent. Very strong absolute. About a
12 percent, 1.2 percent over the benchmark.

13 And that relative outperformance is
14 largely due to an overweight to equities, both
15 domestic and international, that's been in place
16 going back to some of the initial changes that
17 leads to when working with Chris and joining the
18 service at this plan. You know, we will get to
19 fixed income in a second. But the Barclays
20 Aggregate returning 3.3 percent year to date
21 versus S&P at, you know, 20 percent as of
22 November 30. International markets 24 percent as
23 of November 30. You can see how that overweight
24 to equities is really contributed year to date.

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1 analysts coverage. And so, there is a lot more
2 work that has to be done to unearth those bits of
3 knowledge that are considered proprietary or
4 would give an investor an edge. And so, we favor
5 indexing in that space.

6 PineBridge is a new active manager that
7 replaced two other active managers, O'Shaughnessy
8 and Fred Alger. They were a value manager and a
9 growth manager. And you know, another thing that
10 PFM generally part of our philosophy is a core
11 approaches as opposed to dedicated value,
12 dedicated growth.

13 Over certain periods, short term
14 periods, one style typically outperforms the
15 other. It's difficult to time. We don't favor
16 market timing and trying to guess when conditions
17 would favor value or growth. We prefer within
18 the active management space, core managers that
19 are able to make that value growth dichotomy
20 selection on their own. Their available
21 universe, the full universe of core or value and
22 growth. And so, we prefer to leave it up to them
23 to make that selection if and when they want to.

24 MS. RHYNHART: I have a question.

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<p>1 MR. GOLDSMITH: Yes.</p> <p>2 MS. RHYNHART: How do you go about or</p> <p>3 how does the Sinking Fund go about evaluating</p> <p>4 managers, reviewing managers, picking new</p> <p>5 managers? What is that process? Is it on a</p> <p>6 regular basis? Or is it as needed?</p> <p>7 MR. GOLDSMITH: We have -- we at PFM</p> <p>8 have what's called a Watch List. We have our own</p> <p>9 procedures and practices. We have a research</p> <p>10 group that reviews managers for all of our</p> <p>11 clients on a quarterly basis. Based on changes</p> <p>12 to the team, changes to style, deteriorating</p> <p>13 performance, questionable holdings, excessive</p> <p>14 trading may add a manager to a watch list. What</p> <p>15 that does is invite intense scrutiny or more</p> <p>16 intense scrutiny.</p> <p>17 If some of those issues are not resolved</p> <p>18 or performance continues to deteriorate, we may</p> <p>19 make the recommendation to this group to</p> <p>20 institute a termination of that manager. Now</p> <p>21 that recommendation is just that. You would</p> <p>22 ultimately have to vote what to -- to stick with</p> <p>23 the managers, you can say another quarter we can</p> <p>24 leave them on Watch List or on probation, or it's</p>	<p>1 the active managers are sufficient or fees are</p> <p>2 too excessive and they are not willing to come</p> <p>3 down, et cetera. We can reissue that. It's an</p> <p>4 index RFP for example. That is sort of the</p> <p>5 process.</p> <p>6 Ultimately, things can be maybe</p> <p>7 instituted, you know, based on recommendations</p> <p>8 from us. But all actions are taken by the</p> <p>9 trustees in Sinking Fund. So, okay.</p> <p>10 MS. RHYNHART: And are any of the</p> <p>11 managers in this portfolio on PFM's Watch List at</p> <p>12 this time?</p> <p>13 MR. GOLDSMITH: I don't believe so.</p> <p>14 There is a Watch List manager that was terminated</p> <p>15 as part of the -- the replacement by PineBridge.</p> <p>16 So again, it wasn't necessarily the result of</p> <p>17 that Watch List termination. It was, you know, a</p> <p>18 style recommendation that we had to sort of move</p> <p>19 away from these more concentrated active value</p> <p>20 growth dichotomy strategies, and move to a core</p> <p>21 approach.</p> <p>22 We issued an RFP. PineBridge is a</p> <p>23 manager. They do not use this word, but Chris</p> <p>24 and I like to use it describing it, enhanced</p>
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<p>1 whatever. Or you can say we agree, I think it's</p> <p>2 time to terminate this manager and institute a</p> <p>3 search for a new one or move to an index fund or</p> <p>4 something along those lines.</p> <p>5 When it comes to selection of new</p> <p>6 managers either for a new allocation or to</p> <p>7 replace an existing manager, that process is done</p> <p>8 through open RFP. So, we write an RFP</p> <p>9 questionnaire. It's reviewed in conjunction with</p> <p>10 staff release and wide release available and</p> <p>11 open. Review the submissions once they are in,</p> <p>12 PFM reviews them, are research team reviews it,</p> <p>13 staff reviews them independently. We come up</p> <p>14 with a list of -- short list of finalists. First</p> <p>15 round of phone interviews is conducted, several</p> <p>16 follow-up calls are done as needed.</p> <p>17 And then sort of finalist, three</p> <p>18 finalists or so are presented to this group.</p> <p>19 They are brought in to interview a person,</p> <p>20 typically 20, 25-minute interviews, after which a</p> <p>21 vote is held and a selection is made. Vote can</p> <p>22 be take unto not select one of the the managers</p> <p>23 an go back. Amend the RFP or, again, say there</p> <p>24 is a search for an active management and none of</p>	<p>1 index. Problematic, trading and portfolio</p> <p>2 construction designed to minimize tracking</p> <p>3 errors. So again, this will look very similar to</p> <p>4 the index with sector and certain stock weights</p> <p>5 tilted very slightly with a goal of outperforming</p> <p>6 month in month out by smaller margins than maybe</p> <p>7 more concentrated active manager would. But</p> <p>8 ultimately, over a full year full market cycle,</p> <p>9 you know, delivering a percent plus of</p> <p>10 outperformance net of fees.</p> <p>11 Also, PineBridge, this strategy</p> <p>12 presented a significant fee reduction relative to</p> <p>13 both the existing managers that were in place as</p> <p>14 well as their stated minimum fee. So, I think I</p> <p>15 personally was very pleased with how that search</p> <p>16 turned out. They've only been in the portfolio</p> <p>17 for really a month. That included some trading</p> <p>18 transition, as well. So far, they operated, you</p> <p>19 know, as expected.</p> <p>20 Ultimately, I guess when it comes down</p> <p>21 to the Watch List, that is a good phrase to bring</p> <p>22 in. It's designed to see if managers are doing</p> <p>23 what is expected of them. Certainly,</p> <p>24 underperformance in itself is not necessarily a</p>

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<p>1 reason to add a manager to Watch List, 2 particularly if their sector or segment is 3 underperforming or inexplicable position that 4 they have. 5 MS. HOWARD: If it's underperforming 6 relative to benchmark, that's different from the 7 sector -- 8 MR. GOLDSMITH: Sure. If they have a 9 style specific benchmark and they are lagging 10 that. But you know, in a month-to-month basis, I 11 think there is explainable reasons for that 12 outperformance. For example, I mentioned 13 concentrated managers. Some managers may hold 14 30, 50 stocks which the benchmark may pull 2000. 15 There will be volatility in managers like that. 16 They may have specific fundamental themes. 17 For example, in overweight to the 18 tourism sector. This happens in international 19 markets quite a lot. Tourism, gambling 20 internationally, managers will hold stocks in 21 that sector for quite a while waiting for a -- 22 they fundamentally believe that the growth to 23 consumer in Asia will deliver positive returns 24 for the gaming sector aiming towards. They held</p>	<p>1 trade in 2017 with large caps outperforming. 2 Small caps have surged a little bit following the 3 tax proposal. I think they are the companies 4 that don't have, you know, a hundred person 5 accountant teams that can -- are already 6 implementing optimal tax structure. It's our 7 view that small caps should benefit a little bit 8 more than large caps from the tax policy. Then 9 again, like I said in late December, they did 10 rally a little bit. 11 For the full year, the small caps 12 lagged. Again, here in this you have Vaughn 13 Nelson and Eagle, again, value growth dichotomy. 14 And you can see for the year-to-date period, 15 Eagle asset management significantly 16 outperforming Vaughn Nelson. You know, roll it 17 up as a whole, the combined small cap, the dark 18 bar that you see there, 15.29 percent year to 19 date does outperform the Russell 2000 which is 20 the overall component benchmark for small cap in 21 this plan. You know, I think we would prefer an 22 approach that maybe has, you know, one single 23 core manager, a larger allocation perhaps 24 allowing us to reduce fees from more assets with</p>
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<p>1 stocks to a downturn in 2015. And recoup those 2 earnings later -- late 2016 throughout 2017. 3 So, I think one of the things we -- the 4 Watch List is there for is to understand the 5 manager story and make sure that it is in line 6 with their stated philosophy. Now again, if 7 there was a high growth international manager 8 that was holding some undervalued gaming stocks 9 for four, five, six quarters, we would question 10 again how that fits within their growth 11 philosophy. But again, certainly, you know in 12 the example that I gave, it's understandable. 13 Now sustained underperformance for one 14 year plus three years especially when it's less 15 explainable, that certainly warrants further 16 declines down the Watch List spectrum and 17 eventual termination provided there is no 18 turnaround. So again, we have PineBridge was 19 just put in place. We look to watch them over 20 time. 21 Within small cap, I would say the slight 22 underweight to small cap relative to large cap 23 actually helped for the year. Small cap stocks 24 significantly outperformed in 2016. So relative</p>	<p>1 a single manager and possible implementation of 2 indexing. 3 An index fund is approved for this 4 segment of the plan. It's not currently being 5 utilized. You know, historically, small cap 6 has -- contrary to large cap, small cap has been 7 a sector where active management has a greater 8 ability to outperform certainly in the very 9 strong markets for small cap as we see in the 10 last 2016, little bit 2017. Index funds have 11 done well. It's a consideration we may bring to 12 the table of perhaps we should index some small 13 cap assets. That is not currently proposal at 14 this time. 15 MS. HOWARD: Quick question on the 16 Vaughn Nelson, that active manager. I can't see 17 like, you know, second and -- second quarter 18 performance, first quarter performance. But it 19 looks like it's down year to date relative to its 20 benchmark. And then for the near term, you know, 21 metrics that you have, it's also underperformance 22 benchmark. 23 In a case like that, at what point does 24 that sort of manager get added to the Watch List?</p>

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<p>1 MR. GOLDSMITH: Sure. You know, again, 2 I think for purely performance purposes, a 3 year -- a year plus of sustained underperformance 4 might trigger a decline from, let's say, a 5 recommend to a, you know -- we have a Watch List 6 from one through five. 7 MS. HOWARD: Because it looks like, you 8 know, even in the past year, in the past three 9 year it's underperformed, as well. 10 MR. GOLDSMITH: Uh-huh. Again, on a 11 pure performance basis, I think about a year 12 period plus could warrant, you know, simply move 13 to Watch List provided there has been no change 14 to the team. No change to the -- their 15 investment style or philosophy, which is the case 16 with Vaughn Nelson. 17 Again, I did mention that there is no 18 managers on Watch List right now. I believe that 19 is the case. With both Vaughn Nelson and Eagle, 20 it will be a proposal we bring to the table at 21 some point to transition both of them out of the 22 plan and move to a single core manager. So 23 perhaps, there could be something related to 24 Watch List around that.</p>	<p>1 quarter to two, we could see them enter the Watch 2 List. 3 MR. DIFUSCO: And that is a program we 4 talked about yesterday that is identical to the 5 main fund, large fund has always had that 6 brokerage program. And the Gas Works recently 7 instituted it. And as Alex mentioned, I would 8 say out of all the managers, they have probably 9 shown the most push back or hesitation. I think 10 most of the other managers are either because 11 they overlap in the large fund or because they 12 have similar programs with other clients, have 13 been open minded and pretty willing to explore 14 it. Vaughn Nelson has been a little -- we had to 15 spend a lot more time speaking with them and -- 16 MS. HOWARD: It's just every single time 17 frame, you know, three years onwards, Vaughn 18 Nelson has been active manager that's 19 underperformed. That makes it unique among other 20 active managers in the portfolio. 21 MR. GOLDSMITH: Sure. Unfortunately, we 22 don't have -- this is a monthly flash 23 performance, but I can provide the email. The 24 full quarterly performance, I have quarterly</p>
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<p>1 And another element that I guess we -- 2 we don't have specific data on this yet. But the 3 plan has instituted a directed brokerage program. 4 I think we went over this a little bit yesterday. 5 What is that? It's designed to facilitate stock 6 trades these funds with local emerging minority 7 or women-owned brokers. The target of 8 30 percent. 9 You know, we have been in talks with 10 Vaughn Nelson recently about their utilization of 11 these approved brokers. And they have shown 12 really not a lot of effort to use the brokers or 13 to even meet with or review these approved 14 brokers. I know Chris and I have yet to discuss 15 this. But another reason for Watch List could be 16 a lack of service is what I will call it. Could 17 be a lack of transparency, a lack of, you know, 18 discussions around the stockholdings that are 19 there. Or it could be a failure to meet certain 20 requirements that are part of this plan. 21 So again, due to performance, due to the 22 service, Vaughn Nelson is not on the Watch List 23 at this time. But again, going to some changes 24 in the future, it's reasonable that in the next</p>	<p>1 performance, as well. I think one thing that 2 their performance has been the more volatile 3 recently. That's partially due to the fact they 4 are style specific manager. Value growth. You 5 know, and frankly, it's been interesting. They 6 have exhibited fairly strong outperformance since 7 their inclusion in the portfolio. Going back to 8 their inception in 2011, you know, on an annual 9 basis they delivered close to 70 basis points of 10 outperformance. 11 So again, you know, two to three-year 12 period of sustained underperformance is, I would 13 say, worrisome. But over longer periods, taken 14 kind of full market cycle, which we view as five 15 years or so is appropriate, they have 16 outperformed. So you know, only recently have we 17 had the option to go to an index fund in that 18 space. I mentioned, there are -- we would like 19 to transition to a core approach. They are not 20 on the Watch List currently. But if we change 21 our recommendation, that would certainly be 22 brought to this group immediately. For now, it 23 is not changed. 24 Moving through international equity,</p>

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<p>1 this is the asset class where right now there are 2 a number of initiatives currently under way. 3 There is an RFP in place for an index fund, total 4 international index fund benchmark to the MSCI, 5 All Country World, ex-USA index as well as active 6 core international fund benchmarks to the same 7 benchmark, MSCI All Country World. 8 Performance. The total international 9 component of the plan right on top of that 10 benchmark for the month. Year to date, up 11 27.0 percent relative to that benchmark at 12 24.4 percent. Largely, on certain style 13 overweights that are present in the current 14 manager line up as well as an overweight to 15 emerging markets. I mentioned the emerging 16 markets pretty significantly outperformed 17 developed markets for the year. And this plan 18 does have an overweight. 19 You know, Mon -- again, this was the 20 case with this plan when we started working 21 alongside it back in 2016. Again, value growth 22 dichotomy with Mondrian representing sort of a 23 value segment and Harding Loevner representing a 24 growth segment. You will notice that those</p>	<p>1 market like that. 2 MS. HOWARD: What percent allocation do 3 you have to emerging markets to then 4 international equity? 5 MR. GOLDSMITH: Again, I don't off the 6 top of my head, I do not have that. It is -- 7 MS. HOWARD: Can you just get it? 8 MR. GOLDSMITH: -- slightly overweight. 9 We should be able to send that later on today. 10 The RhumbLine International, that's a 11 developed markets only index. Which is why, 12 again, we are issuing RPF for a total 13 international index so that, you know, there will 14 be indexed exposure to emerging markets, the plan 15 going forward. And then similar to PineBridge, 16 the DFA emerging market score is somewhat of an 17 enhanced index strategy. It should fairly 18 closely hug its benchmark on an annual basis with 19 some volatility on the month or quarter segments. 20 Again, you can see for year to date, the 21 slight lag net of fees over longer periods 22 outperform from that. 23 On the next page, fixed income. 24 Certainly, a much lower absolute return.</p>
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<p>1 managers, the allocation, the percentage column 2 is a little different. And that is due to the 3 fact that Mondrian has very little exposure to 4 emerging markets. The total plan benchmark for 5 international equity is the All Country World 6 ex-USA, which is about 24 percent emerging 7 markets off the top of my head. And this plan 8 based on the managers that were included was 9 underweight to emerging markets. 10 One of the things we wanted to do, this 11 was done I believe in -- earlier in 2017 was 12 using the existing managers, rebalance them so 13 that the overall plan weighting was closer to the 14 emerging markets target. Indeed right now, I 15 believe we are slightly overweight which has 16 benefitted. 17 So Mondrian, was reduced to about 18 4.5 percent or so. You know, again, as value as 19 underperformed growth for the year. Harding 20 Loevner, the growth manager, has outperformed. 21 It's benefitted the plan, but that's again not 22 something that we really would like to see. We 23 would rather see a single core manager in place 24 not as beholden to volatile sector swings in the</p>	<p>1 Negative return for the month. You know, 2 2.95 percent year to date on an absolute basis. 3 Slight lag relative to the total fixed income 4 benchmark, which is the Bloomberg Barclays 5 Aggregate. Year to date plan, was 2.95. 6 Barclays Aggregate, 3.07. Again, I think that's 7 related to certain style and duration elements 8 that are part of this plan. 9 So I mentioned during this year, we 10 approved and added investment grade credit 11 manager. That fund had only been in the 12 portfolio for -- since July. We don't have a 13 year to date number for that allocation. We 14 would expect again higher corporate allocation to 15 help over time. Similarly, I think you will note 16 the last two managers, Lazard and Garcia 17 Hamilton, 2.2 percent year to date, 2.03 percent 18 year to date. Lagging the Barclays Aggregate by 19 80 to 100 basis points. 20 That intermediate duration allocation 21 has been a detractor year to date. In prior 22 periods, intermediate was really the place to be 23 as long term rates had risen somewhat. So, I 24 mentioned that there is a high yield manager that</p>

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<p>1 is about to be finalized through the contract 2 process. That would be, I believe, the sixth 3 fixed income manager within this plan. 4 Allocations between the managers are starting to 5 get somewhat small. And so, we may bring at the 6 next meeting a proposal to rebalance the fixed 7 income allocation, potentially consolidate some 8 managers. And again, review given the prospect 9 of rising rates, review whether a dedicated 10 intermediate allocation continues to make sense. 11 And we certainly do favor corporates and high 12 yield, but perhaps maybe a move to a more 13 duration neutral position would make more sense 14 in a rising rate fund. 15 That really concludes my comments on the 16 performance of the plan. Again, this is the -- 17 unfortunately, we don't have -- this is the 18 basic, you know, monthly flash on a quarter 19 basis. We produce a full report that includes 20 detailed holdings, sector weightings, calendar 21 year performance, et cetera. We can send over 22 the Q3 report. And I will confirm the emerging 23 markets allocation as well. 24 Any questions on managers' performance</p>	<p>1 aren't. But it's, again, this plan has an active 2 overweight to duration because that intermediate 3 is a five-to-ten year, excuse me, five-to-seven 4 year. 5 MS. HOWARD: If you are expecting -- you 6 mentioned you expect the Fed to raise rates 7 several times this year. Wouldn't you want to be 8 short duration risk in year term? 9 MR. GOLDSMITH: I would think -- you 10 know, yes. I mean, typically, that's how bond 11 prices react to rising rates. I think the 12 shorter duration funds, when there is a shot to 13 duration like what we have seen today, be curious 14 to see how these managers perform. When there 15 is, you know, a sudden or a significant jump in 16 rates, I think the lower duration strategies can 17 provide some downside protection. But in a 18 measured fairly predictable rate environment, 19 which I think is what we have seen, there have 20 been flashes. 21 Certainly, the end of last year when 22 interest rates shot up following the election, 23 shorter duration strategies outperformed 24 slightly. Certainly back in 2013 when that</p>
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<p>1 allocation? 2 MS. HOWARD: Can you just go back to 3 what you were saying about managing duration 4 risk? You talked a little bit about the high 5 yield allocation which would be your exposure to 6 credit risk. It would seem like then you 7 wouldn't want to take credit risk and duration 8 risk at the same time. 9 When you are talking about medium 10 duration risk, wouldn't you want to then couple 11 that with low credit risk? 12 MR. GOLDSMITH: Exactly. That's what I 13 was saying. I think we may be recommending a 14 move away from duration risk to more duration 15 neutral strategies. I believe the high yield 16 strategies we approve is duration neutral, and 17 low grid circle, largely aims to be duration 18 neutral. These are two dedicated intermediate 19 funds. Relative to their benchmarks, they are 20 duration neutral. But relative to their plan for 21 fixed income, which is the Barclays Aggregate, 22 they are taking duration risks. 23 MS. HOWARD: Okay. 24 MR. GOLDSMITH: I guess, the managers</p>	<p>1 happened, you know, low is the place to be. But 2 interest rates throughout early 2017, you know, 3 fell back to norms. And really were flat to up 4 slightly this year. And you know, the lower 5 duration strategies struggled somewhat, as well. 6 So, I think you have to get balance interest 7 rates and your coupon versus your desire to take 8 that duration back. 9 PFM's view has always been that credit 10 risk is where we like to budget that idea. So 11 you know again, I mentioned that as we continued 12 to add credit risk strategy to this plan, some of 13 the allocations with the other manager is 14 scratched. I think we want to create a proposal 15 and bring that most likely to the next meeting. 16 We want to discuss it with staff and, obviously, 17 them first. 18 MR. DIFUSCO: I wanted to mention a 19 couple other things, just as a heads up. The 20 market value of the plan rose pretty 21 significantly following yesterday's distribution 22 of benefit payments. And so, you see this -- you 23 see this morning there is 558 and a half million 24 in market value plan. So, it's about \$20 million</p>

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<p>1 increase prior to benefits being paid. Alex also 2 touched on in terms of the international equity. 3 I think we talked a little bit about this with 4 Rosamond yesterday. One of the other issues that 5 has come up, which predates a lot of folks here 6 including folks from the Law Department, that 7 there was a time when it was seen as acceptable 8 here to use mutual funds for certain asset 9 classes in spite of the two investment 10 restrictions we have here which are Sandy Hook 11 and Macbride. 12 There is obviously -- that makes it very 13 difficult for us to monitor and force those 14 restrictions in following conversations with them 15 as well as PFM. It's another reason why we have 16 those RFPs out to move to separately managed 17 accounts so we can have full implementation of 18 those investment restrictions. 19 MS. HOWARD: That makes total sense. 20 One thing that's nice about mutual funds, you can 21 just pull the fund sheet so easily. Is there 22 something like that for the SMAs that you can 23 send us, like, a product data sheet or something 24 like that, that would have that sort of</p>	<p>1 MS. HOWARD: Many of these -- the reason 2 why I say this is because many of these managers 3 have several different investment strategies on 4 their website. When I see a manager named, I 5 don't know necessarily which strategy you are 6 employing. 7 MR. DIFUSCO: That's not a problem. We 8 are happy to get that stuff. 9 Other questions or comments? 10 That was the full Agenda for the month. 11 Alex mentioned there might be a -- likely will be 12 a fixed income discussion. It's also likely that 13 one of the RFPs that's outstanding, perhaps index 14 fund, will be ready for discussion at the next 15 meeting as well in two months. 16 Normally, I can't say definitively, but 17 normally just getting the SMA and the 18 descriptions and such, we normally hear from the 19 same two or three managers in the index spaces. 20 Are limited kind of universe there and that 21 respond is willing to contract in the City 22 processes and such. We will keep you informed of 23 that intermittently as to where the search is 24 regarding that.</p>
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<p>1 information? Just because it makes it easier for 2 us to research it on our end to make sure stuff 3 is in publicly. 4 MR. GOLDSMITH: For the funds that are 5 responding to the RFP or for the existing funds? 6 MS. HOWARD: Well, yeah. I mean, it 7 would just be helpful to be able to see -- like, 8 I guess there aren't that many managers here. 9 Would be helpful to have just a SMA product 10 description. I think that would be, like, what 11 we call -- if there were like a five letter 12 ticker we could look up for mutual funds, we 13 could do it ourselves. That would be -- since 14 it's in SMA, it's more opaque. I don't know 15 where to find it. 16 MR. GOLDSMITH: In our quarterly books, 17 we have holdings and characteristics and 18 performance statistics. In terms of strategy 19 description, I believe, you know, we could 20 prepare something like that. The managers should 21 have -- they would certainly have the pitch books 22 that go into depth of each strategy. We can 23 provide those. We can also see if there is 24 something a little more concise, as well.</p>	<p>1 MS. JOHNSON: Any other business? 2 Seeing none, a motion to adjourn. 3 MR. DIFUSCO: That's it. 4 MS. RHYNHART: I'll second. Sure. 5 (Meeting adjourned at 11:00 a.m.) 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24</p>

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CERTIFICATION

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

ANGELA M. KING, RPR
Court Reporter - Notary Public

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