

Sinking Fund Commission In Re: July Meeting
July 13, 2016

CITY OF PHILADELPHIA
SINKING FUND COMMISSION

In Re: July Meeting

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Wednesday, July 13, 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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Sinking Fund Commission In Re: July Meeting
July 13, 2016

A P P E A R A N C E S

COMMISSION MEMBERS:

Donn Scott, Chairman

Alan Butkovitz, Controller

Rasheia Johnson, 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: Other Members and Interns

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 3

1 - - -

2 MR. MAZZA: Thanks everyone for coming
3 to our Sinking Fund meeting.

4 Just a quick note. Just want to
5 introduce Donn Scott as our new Chairman. Donn
6 is a veteran of the commercial banking world,
7 government relationship manager at Wells Fargo
8 for 40 years even though he doesn't look it.
9 Younger than his age. We thank Ben for his time
10 and service in the Sinking Fund Commission and we
11 welcome Donn.

12 So, Donn, welcome to the Sinking Fund.
13 Chairman, the floor is all yours.

14 CHAIRMAN SCOTT: All right. You guys
15 are awfully punctual.

16 Let me call this meeting to order. And
17 let me also say thank you all for coming out and
18 joining us this morning. I am delighted to have
19 an opportunity to serve.

20 I think the first order of business is
21 approval of the transcript of the meeting of
22 May 11.

23 Is there a motion?

24 MR. RUBIN: So moved.

1 CHAIRMAN SCOTT: Second?

2 MS. JOHNSON: Second.

3 CHAIRMAN SCOTT: All those in favor
4 please signify by saying aye.

5 (Ayes.)

6 CHAIRMAN SCOTT: Did I hear that?

7 MR. RUBIN: There's only two of us.

8 CHAIRMAN SCOTT: Maybe next time I just
9 say raise your hand.

10 The next item, I guess, is informational
11 items. Who should I turn this over to?

12 You got it.

13 MR. DIFUSCO: We have two informational
14 items. The first is memo and update.

15 I think we had set out previously on the
16 SEC rules surrounding money market reform. And
17 we noted the Commission in consultation with PFM,
18 we made a change to a different account, a
19 government backed account. PFM has the memo here
20 summarizing the reasons for the recommendation.

21 Obviously, if there is questions now or
22 in the future, we are happy to answer them. This
23 is a change we needed to make in light of the SEC
24 ranks change.

1 MR. MAZZA: Yeah. Floating NAV, money
2 market funds since, you know, the -- back in
3 2008, there have been a lot of talk about change
4 in the money market reforms. This is one way
5 it's going to impact us.

6 CHAIRMAN SCOTT: Do we need to make a
7 motion to approve this?

8 MR. DIFUSCO: No. No.

9 The second item was, we had received a
10 request regarding one or two meetings ago to
11 start receiving a list on PGW retirees and then
12 the changes to those. So, we provided two items.
13 I believe they are in your binders. We sent them
14 out electronically, as well. You have a full
15 list of the PGW retirees after June 10. Then you
16 have update from PGW as to folks either added on
17 or dropped off as of July 1.

18 I think that's fairly similar to the
19 information we get for Municipal Retirement
20 System. We will continue to do that, you know,
21 on a -- every two months at the meetings, we will
22 provide that. If there is any desire to see the
23 information in a different format or you see
24 something missing, by all means, let us know.

1 CHAIRMAN SCOTT: Do retirees have a
2 ability to take a lump sum?

3 MR. DIFUSCO: No.

4 CHAIRMAN SCOTT: Okay. Thank you. All
5 right. Thank you very much for that.

6 Next item on the Agenda is the Pension
7 Plan Investment Policy Analysis.

8 MR. GOLDSMITH: Going to pass that
9 around, updated plan as of yesterday.

10 MR. AMMATURO: What's coming around is
11 an update as of June 30. I will wait for it to
12 get passed around before I jump right in. There
13 is two coming around. One looks like the update
14 of performance. There is another sheet that
15 looks like this, one pager. Just an updated
16 market value as of July 12. But I will hit upon
17 the stapled document, I'm sorry, the June 30
18 document first.

19 This is an abbreviated version since we
20 are so close to quarter end. I will go over the
21 markets at a high level. Then I will segue and
22 spend a little more time on your portfolio. But
23 in terms of the markets, if you just want to flip
24 to the market index performance page which is

1 page 1, just to close a loop on the markets for
2 the first -- for the second quarter and year to
3 date.

4 If you look at Domestic Equity, you
5 know, for Donn's edification, your portfolio was
6 roughly 65 equity/35 fixed income. I will get to
7 that in a second. Equities have a big factor
8 behind how your portfolio does. And equities
9 markets have done fine. If you look at S&P 500
10 the third row down in Domestic Equity was up two
11 and a half percent in the second quarter. If you
12 look at the Year-to-Date column, the domestic
13 stock market was up 3.8 percent in the first six
14 months of the calendar year. Again, ballpark,
15 65 percent of assets are in the equity side of
16 the equation.

17 Couple things I will put out within
18 equity -- within domestic equity. One is, if you
19 can compare and contrast S&P 500 to the Russell
20 2000, the Russell 2000, that's two from the
21 bottom within domestic equity, if you look at the
22 year-to-date column, it's also positive. It's
23 only positive 2 percent. The Russell 2000 is
24 small cap domestic equity stocks. So small cap

1 stocks did not keep up with large cap stocks in
2 the first six months of the calendar year.
3 That's actually a good thing for PGW. Because
4 when we get to your portfolio, you will see
5 you're overweight large cap domestic. And it's
6 really pronounced if you go out to the One Year
7 column.

8 If you go to the One Year column,
9 Russell 2000 is actually negative 6.7 percent.
10 Small cap domestic stocks have sold off 7 percent
11 in the trailing twelve months. But look at the
12 S&P 500, positive 4. An 11 percent differential
13 between the large cap domestic stock and small
14 cap domestic stock. Again, your portfolio is
15 overweight large cap. That's been helpful.

16 One thing I will point out briefly also
17 within domestic equity, if you look at Russell
18 1000 value and Russell 1000 growth, Russell 1000
19 value is what's known as value stocks. Russell
20 1000 growth is known as growth stock. There's
21 been a fairly big dispersion. Look at the
22 year-to-date column, 6.3 for Russell 1000 value.
23 Look at Russell 1000 growth, 1.3. If you look at
24 Russell 2000 value, positive 6 for the year.

1 Russell 2000 growth, negative 1 and a half for
2 the year. Something we were going to address at
3 this meeting is do we want to continue that
4 volatility or do we want to go with a more core
5 approach. Again, Alex will handle this later in
6 the meeting. I want to point this out while
7 looking at this page.

8 There's been a big dispersion between
9 value stocks and growth stocks. It causes
10 volatility in your pension plan. Do we want to
11 continue down that road, or do you want to have a
12 more core approach to investing. Again, that's
13 an Agenda item coming up. I wanted to point out
14 those numbers since we are on this page.

15 On the international side, the first row
16 underneath international equity, that's developed
17 markets overseas. They sold off with the UK vote
18 to potentially leave the EU in June. Obviously,
19 that sent shock waves through international
20 markets. MSE IE, is developed markets overseas
21 down 1 percent for the quarter, down 4 percent
22 for the year. Again, for the six months ending
23 June 30, international developed markets are
24 negative 4 percent.

1 EM, interestingly enough, look at EM.
2 The emerging markets, the last row underneath
3 international equity, positive 6 percent year to
4 date. At 10 percent differentials, whether you
5 invested in developed stock overseas or an
6 emerging stock overseas. Part of that rally in
7 emerging markets is driven by the rebound and the
8 price of oil and the price of commodities in the
9 second quarter.

10 Because if you look at in the
11 alternative section, if you look at the last row
12 in alternatives, commodities were up 13 percent
13 just in the quarter. I'm looking at the last row
14 in the alternative section. 13 percent for the
15 quarter and actually 13 percent for the year. If
16 you go out one year, though, I think we all know
17 the price of oil lags, negative 13 percent.

18 And it's a direct relation. Look at
19 what the emerging markets have done in the past
20 year. Looking back up at international equity,
21 MSE EM is off 12 percent. Undoubted, correlation
22 between commodity prices and how emerging market
23 stocks have done as of late.

24 Fixed income, this is where you have

1 roughly 30/35 percent of your assets in the
2 pension fund. I will get to your performance in
3 a second. But the Barclays Aggregate continues
4 to do well. Was up 2 percent in the second
5 quarters. Was up over 5 percent for the first
6 six months of the calendar year. Why? Because
7 the Ten Year Treasury continues to decline with
8 Brexit, with U.S. economy slowing down and global
9 economy slowing down, there's been a flight to
10 quality, flight to safer investments. Not many
11 more safer investments than a treasury bond. So,
12 that's led to a ten year decline to the tune of
13 being at 1.47 percent as of June 30. Again,
14 1.47 percent. The lowest it's ever been is 1.39.
15 We are at 1.47 at June 30.

16 Historical times. But that drop in the
17 yield obviously leads to appreciation in the
18 price of bonds. And that's what we saw in the
19 first six months of the calendar year to the tune
20 of 5.3 percent.

21 That's the overview of the markets. I
22 kind of wanted to leave it right there in terms
23 of kind of where we are in the markets. The
24 equity market continues to do well. See there

1 are kind of fully or overvalued at the time. But
2 relative to bonds, domestic equity is actually
3 fairly value and one could argue relative to the
4 bond market which is significantly overpriced
5 because of where interest rates are priced right
6 now.

7 With that, I am going to segue to your
8 portfolio which is on page 2. We get into your
9 pension plan here on page 2. The total market
10 value on the top row of page 2 is 483,258,662.
11 That's where you ended June 30. If you want to
12 take a sneak peak, this is only less than two
13 weeks after quarter end. The hand out is
14 July 12. The market value is 493,828 217. If
15 everyone sees where I'm looking. I just quick
16 sneak peak on the bottom row on July 12. It's
17 grown since the end of the quarter.

18 In terms of performance, performance has
19 been fairly solid. For the month, your portfolio
20 was up 72 basis points for the most recent
21 quarter, was up 1.76. For fiscal year, it's up
22 4 percent. On a year-to-date basis, for the
23 first six months of the calendar year, your
24 portfolio was up north of 3 percent, 3.22. So

1 when you think about it from an expectation
2 standpoint, you are trying to generate a return
3 of, let's say, over 7 percent from an actuarial
4 perspective. Halfway through the calendar year,
5 you are at 3.22. You analyze that, you are
6 getting close to the actuarial assumption. Not
7 meeting it, but getting close to where you kind
8 of want to project out going forward.

9 You know, slight underperformance verse
10 the benchmark. If you look at year to date, it's
11 relatively tight, 3.22 verse 3.31. I'll go into
12 the rational in a second. But at a high level,
13 international equity managers are doing really
14 well. Outperforming, generating incremental
15 returns, generating alpha relative to their
16 benchmarks. A different story in domestic
17 equity. Your domestic equity managers aren't
18 keeping up. They are kind of offsetting each
19 other on a relative basis. And that's why your
20 portfolio is kind of, in line, if you will, for a
21 year-to-date period.

22 To get a little bit more specific,
23 combine large gap. That first bold row is how
24 all these large cap managers have performed in

1 the aggregate. So you have two index funds,
2 RhumbLine and Northern Trusts. You have two
3 active managers, O'Shaughnessy and Fred Alger.
4 If you just want to concentrate on the
5 year-to-date column, in the aggregate, those four
6 managers were up 2 percent. Again, I'm looking
7 at the year-to-date column, 2.06 to be exact.
8 The benchmark was actually up 3.74.

9 So if you look at O'Shaughnessy, if you
10 look at Fred Alger, you look at the year-to-date
11 column, they do not keep up with this upturn in
12 the market. O'Shaughnessy by quite some -- but a
13 healthy margin, by a tune of over 5 percent on
14 the year-to-date basis. There is a factor driven
15 investment process. There are factors that have
16 driven them to be overweight retail. Not a place
17 to be.

18 Macy's has sold off. Bed, Bath and
19 Beyond has sold off. Michael Kors has sold off
20 especially in the second quarter. They are also
21 underweight energy. As I mentioned, the price of
22 oil rebounded in the second quarter. They are
23 6 percent underweight energy. Those two things
24 are working against O'Shaughnessy.

1 They are a very recent addition to the
2 portfolio. The far right column is when PGW
3 hired the manager just in November of last year.
4 You can see they are down 5 percent since PGW
5 hired them. The benchmark is actually positive
6 4.4. A manager we need to keep a close eye on,
7 rather recent addition to the portfolio.

8 Fred Alger, you know again, year-to-date
9 the two managers are both underperforming. They
10 are down actually negative 2 and a half percent
11 for the first six and half months the calendar
12 year. Benchmark is positive 1.4. They had stock
13 selection issues in the healthcare space, more
14 specifically in the biotech space. They had one
15 biotech stock that was off 40 percent in the
16 second quarter. We will talk about them a little
17 bit later. We all know that there's an RFP that
18 we were potentially going to have them come in
19 and interview. We will talk about that in a
20 second.

21 On the small cap side, if you look at
22 the year-to-date column, still slightly a lag
23 relative to the benchmark. You know, small cap
24 for year-to-date, positive 1.8. The benchmark,

1 positive 2.2. That's all driven by Vaughan
2 Nelson. Vaughan Nelson underperformed by
3 2 percent on a year-to-date basis. Actually,
4 Eagle slightly outperformed. Vaughan Nelson had
5 some stock selection issues in the IT and
6 financial sector which really held their
7 performance back on a year-to-date basis.

8 Different story, like I said already, on
9 international. Look at international
10 year-to-date. Look at the bold line, if you
11 will. Four and a half percent positive
12 year-to-date. The benchmark is actually
13 negative, negative 1 percent. Significant alpha,
14 significant incremental return generated by your
15 active managers which obviously is good to see.

16 Across the board, first one, positive
17 return on the year-to-date basis of 1 percent.
18 The benchmark was negative 6. Harding, positive
19 3.6; benchmark was flat. And your emerging
20 markets only manager DFA was up 9 percent. The
21 benchmark was up 6 and a half. Again, I'm
22 looking at the year-to-date column. So across
23 the board in good incremental return generated by
24 your active international equity managers.

1 That's your equity side of the equation.

2 On the flip side is your fixed income.

3 You know, fixed income, if you look at the
4 year-to-date period, positive 4.62. Did not keep
5 up with the Barclays Aggregate. The Barclays
6 Aggregate is the proxy for the overall bond
7 market.

8 Why is that? If you look at Lazard and
9 Garcia, performance is good but their -- it's an
10 intermediate benchmark. It's an intermediate
11 mandate that they manage, too. Intermediate
12 bonds did not keep up with the Barclays Agg in
13 the first six months of the calendar year.

14 So managers did fine, but you have us
15 call at 17 percent allocated to intermediate.
16 Intermediate did not keep up with the aggregate,
17 the overall bond market. So it's more a
18 strategy, if you will, as opposed to the manager.
19 If you look at Lazard and Garcia Hamilton
20 year-to-date, they are both doing fine. Lazard
21 is kind of in line, 3.68 verse 3.78. Garcia is
22 actually outperforming 4.3 versus 4.07.
23 Intermediate wasn't the place to be relative to
24 the aggregate. If you look at the aggregate

1 again, it was up over 5 percent in the first six
2 months of the calendar year. You have two
3 managers that are managing to the aggregate,
4 Weaver Barksdale and Logan Circle. You know,
5 they both were kind of in line for the first six
6 months of the year, 5.3 for Weaver Barksdale; 5.
7 5.2 for Logan Circle.

8 MR. DIFUSCO: Marc, is that benchmark
9 then for the combined fixed income an appropriate
10 benchmark in your mind for combined total if over
11 half the money being managed is being managed
12 against something other than the agg?

13 MR. AMMATURO: Yes. In the IPX, remind
14 me. We revisit targets for -- on the fixed
15 income side of the equation. We do not -- it's a
16 good question. Because in my opinion, we're
17 currently reevaluating this. And we currently
18 have RFPs outstanding as you know, Chris, for
19 corporate fixed income. Working on the emerging
20 market debt.

21 Is the Barclays Aggregate a good proxy
22 for the overall composite? Yes. But is the mix
23 appropriate? I think answer the is no. And
24 that's why we are working on these RFPs. Does

1 that make sense?

2 MR. GOLDSMITH: Currently, the benchmark
3 for fixed income mandate is 47 percent aggregate,
4 then 53 percent intermediate which is itself a
5 blend of the intermediate.

6 MR. DIFUSCO: I just mean, like, if we
7 are showing the flash report like we do here, we
8 said combined fixed income and then we measure
9 combined against the Barclays, we have 687
10 million and, you know, managed against something
11 else where 78 -- I guess my question is even if
12 it's just on a flash, should it be -- should the
13 combined fixed income target be a combination of
14 the Barclays Agg and something else? Or is the
15 overall proxy still the Barclays Agg?

16 MR. AMMATURO: I think the overall proxy
17 should be the Barclays Agg. That's what you want
18 to manage to and outperform. But again, that's
19 where we don't want to just hire agg managers
20 even though the overall benchmark on our page
21 remain the Barclays Agg, at the end of the day,
22 that's the treasury market -- sorry, that's the
23 domestic bond market the agg. It's a good proxy,
24 good benchmark to aim at. We want to diversify

1 outside the agg in our opinion.

2 MR. GOLDSMITH: Those are the themes we
3 actually present at the May meeting as part of
4 the asset allocation. I think I will cover that
5 as part of the IPS discussion and the benchmark
6 questions as well.

7 MR. AMMATURO: Last page before you move
8 on the next Agenda item is the allocation. If
9 you look on page 4, you know, this is what drives
10 your returns. If you look at the bottom of page
11 4, the bar chart, the blue bar is how PGW is
12 invested. So like I mentioned earlier, large
13 cap, you are at 42.4 percent. You are overweight
14 large cap because your target is 41. That's
15 helped you. Large cap has done well. Actually
16 helped with the small cap. That helped you.
17 That is what I was referring to earlier.

18 All the other, you know, targets, if you
19 will, for assets classes, you are right near the
20 target. Small cap you are at 8.8. The target in
21 your investment pol statement is 9.
22 International equity, you are slightly
23 underweight which has been a good place to be,
24 too, as international equity has not kept up with

1 domestic equity. You are almost a percent
2 underweight international equity, which again has
3 been a good place to be. And then fixed income,
4 let's call it right on top of target, 34 and a
5 half versus target of 35.

6 And again, the other sheet I passed
7 around I just wanted to provide an update as of
8 July 12. I talked about the increase in market
9 value already. If you look at the current
10 allocation percentage column versus the target
11 allocation percentage column, the themes are very
12 consistent with where you were June 30.
13 Obviously, this is less than two weeks after the
14 quarter end, so not much has changed. The main
15 takeaway here is kind of your total plan market
16 value. I want to communicate where you are as of
17 July 12.

18 But the theme of being international
19 equity underweight still remains. For example
20 14.18 versus target of 15. But I didn't plan to
21 go through that row by row.

22 CHAIRMAN SCOTT: Are we done with that
23 section?

24 MR. AMMATURO: Yes.

1 CHAIRMAN SCOTT: Thank you very much.

2 So now, we are going to move to the
3 Pension Plan Investment Policy Analysis.

4 MR. GOLDSMITH: Yes. I will direct your
5 attention to the tab, the binder labeled Draft
6 Investment Guidelines. And before we sort of go
7 into the document a little bit, I think it makes
8 sense to revisit some discussion that was had at
9 the May meeting, you know, both for Donn's
10 benefit and also kind of set the stage for the
11 red line document here.

12 At that meeting, while we presented an
13 asset allocation review of the plan, both the
14 existing asset allocation and several alternative
15 allocation structures using our capital market
16 assumptions. And the purpose of that was both to
17 look at where the plan is currently and also to
18 review, you know, potential new themes for the
19 portfolio. You know, was brought to us when we
20 assumed our consulting role back in March to
21 present some additional directional themes we
22 like to take the portfolio or revise the
23 portfolio.

24 Coming out of that analysis were three

1 prior -- one main primary theme, that was
2 diversification of fixed income. Marc spoke
3 about it a little bit in covering the performance
4 review there. Unfortunately, we don't have
5 analysis here. But it was really within that
6 diversification of fixed income division of three
7 subasset classes designed to enhance yield and
8 provide some diversification outside of the
9 United States.

10 So the main -- the three themes were
11 investment grade credit, which currently -- these
12 were agreed by the Sinking Fund Commission in
13 that May meeting, some of this is underway; the
14 addition of the investment grade credit to the
15 portfolio. All investment grade triple B rated
16 or above corporate credit, you know, corporate
17 bonds. It can include some asset backed credit,
18 as well, private credit card debt, some car loan
19 payments as an example of some asset-backed
20 credit. And currently, an RFP is underway.

21 Just yesterday, I think we finalized an
22 RFP for the second subasset class, which is
23 emerging market stat, diversifying away from just
24 U.S. based fixed income. If you were to

1 reference the performance report that Marc
2 covered, you will see as emerging markets equity
3 have outperformed for the year, emerging market
4 debt has, as well. Over the long term, the rise
5 in emerging markets, talking 30 years or 10, 20,
6 30 years out, I think necessitate the need to
7 include both the sovereign debt and corporate
8 debt of those countries.

9 And then the final theme within the
10 fixed income subasset class is the addition of
11 high yield securities. As the name implies,
12 these are below investment grade securities that
13 are higher yielding than traditional treasuries,
14 agencies and some of the more investment grade
15 corporate investment grade credit.

16 We all know we are in the low yield
17 environment. Again, if you were to reference the
18 performance report, you see year-to-date high
19 yield pretty significantly outperforms broad core
20 fixed income. It does come with additional risk,
21 certainly default risks. But you know, it's
22 included as return and answer for the portfolio
23 at a typically lower allocation.

24 That's really the themes we discussed.

1 And why we're revisiting the investment policy
2 guidelines are because currently those themes
3 would not be able to be implemented the way we
4 would like. Primarily, a restriction to foreign
5 bonds which would preclude the emerging markets
6 debt piece and below investment grade securities,
7 which would preclude some of the credit
8 investments as well as most high yield.

9 So, that's where we were starting. If
10 we're going to review and make an amendment to
11 this document, there are some other potential
12 areas where I think we like to rework the
13 document to allow for a more fluid framework in
14 the future. Some future themes we discussed last
15 month or at the last meeting that weren't
16 approved in term of set aside for perhaps a later
17 date include the addition of alternatives,
18 perhaps some real estate, infrastructure
19 investments and then eventually perhaps private
20 equity or hedge funds even further down the road.
21 Those investments were also precluded by the
22 current framework.

23 Additionally, there are some
24 benchmarking requirements in here that we feel

1 really over-restrict the investment managers.
2 And so, we reworked that into a total portfolio
3 approach to investment restriction. So I --
4 there are a lot in the document. It's red line.
5 It's small. But I'd like to kind of walk through
6 some of the high level changes that we are
7 recommending, if that makes sense.

8 CHAIRMAN SCOTT: Can I just ask a
9 question?

10 MR. GOLDSMITH: Sure.

11 CHAIRMAN SCOTT: Whenever I hear the
12 term below investment --

13 MR. GOLDSMITH: Investment grade.

14 CHAIRMAN SCOTT: Yeah. That raises a
15 red flag with me. But again, I was also looking
16 at it from a commercial lending perspective. And
17 I know if it's below investment grade, you are
18 going to get a high return, right, because you
19 are taking more risk. So I would assume that the
20 amount that you would allocate to that would be
21 relatively small?

22 MR. GOLDSMITH: Yes. I think -- really
23 for all of the subasset classes, I think
24 currently right now in the asset -- I have my own

1 copy from the last meeting -- 35 percent of core
2 fixed income. The amended or the proposed
3 allocation include -- drops that down slightly
4 and includes 3 percent allocations to investment
5 grade credit, the emerging markets debt both
6 below investment grade and investment grade, and
7 then high yield which is all below investment
8 grade. So, 3 percent roughly allocation we are
9 talking to below investment grade securities.

10 Not a lot of the portfolio. And I would
11 be happy to kind of -- we can probably send it --
12 should send this around just to give you an idea
13 of what adding that high yield does to the return
14 to portfolio as well as the risk in terms of
15 volatility. It raises it slightly, but it's
16 pretty minimal amount.

17 MR. AMMATURO: And the conundrum we face
18 is how much volatility do you want to take on?
19 At the end of the day, we are risk managers at
20 PFM. We need to take on some level of risk to
21 make your actuarial assumption realistic to be
22 able to achieve your actuarial assumption.

23 You know, our projection for core bonds
24 is 1 and a half percent over the next five years.

1 That's the challenge. How we are going to get to
2 7, 7 and a half, 7.25 over the next five years if
3 core bonds are generating a return of 1 and a
4 half percent and our projection for our yield is
5 5 percent, north of 5 percent. There is no free
6 lunch. There is volatility there.

7 It's not asset class we say invest and
8 leave it and forget about it. It's an investment
9 that needs to be closely monitored and maybe not
10 even be held all the time. But in certain
11 markets, it's warranted at a small allocation to
12 your question, Donn. At a small allocation.

13 MR. GOLDSMITH: So, I want to flip right
14 now to page 3 of the red-line document. And you
15 know, this is partially related to the addition
16 of the new fixed income subclasses, but it's
17 also, again, a simplification of the guidelines
18 to allow for more fluid portfolio management,
19 more fluid asset allocation structures if market
20 conditions, economic conditions warrant it.

21 So in the highlighted row there, you can
22 see the new asset allocation framework and
23 targets. The mix does not change. It remains
24 35 percent equity, 25 percent fixed income.

1 What does change is -- I'm down below
2 what's crossed out. You can see what was there.
3 It's a shift from having specific targets to
4 large cap and small cap to pure domestic equity.
5 It goes from -- it increases international equity
6 from 15 percent to 20 percent. That's a proposal
7 based on the market cap weighting of
8 international equity securities within the
9 overall global market cap. It's approximately
10 55/45 split.

11 So increasing international equity
12 target would make sense. And then on the
13 following page similarly to --

14 CHAIRMAN SCOTT: Before you move, I want
15 to make sure I understand the presentation. I
16 see international. And then beside in
17 parenthesis I see plus or minus, what, 20
18 percent. I see target 15.

19 So what's changing? We are going from
20 what to what?

21 MR. GOLDSMITH: The target weighting for
22 international equity is moving from 15 percent to
23 20 percent to more closely reflect the weighting
24 of international securities within the global

1 market.

2 MR. AMMATURO: What's up above, right,
3 Alex?

4 MR. GOLDSMITH: Yes.

5 MR. AMMATURO: What's up above is what
6 we are proposing you move to. What's down below
7 is in the current document.

8 CHAIRMAN SCOTT: We go from small caps,
9 move from 9 to 20 percent? Am I looking at that
10 right?

11 MR. GOLDSMITH: So small cap is being
12 removed as a specific target. The rational being
13 having a specific target to small caps overly
14 restricts the portfolio. It means that you must
15 by policy -- the target should really be
16 9 percent. And if you look at the ranges, the
17 minimum range for small cap was previously
18 7.2 percent which means that at all times, any
19 and all market conditions, small cap had to be in
20 the portfolio.

21 By shifting to a total domestic equity
22 target which is up above, and you will see that
23 45 percent. That includes large caps and small
24 caps and allows for the possibility to

1 potentially be further underweight small caps
2 even fully or removing them from the portfolio if
3 the environment dictates such a position.

4 MR. BUTKOVITZ: Does this mean that you
5 don't concur with concerns about drops in
6 international equities because of Brexit codes?

7 MR. AMMATURO: This is long term focus,
8 Alan. This is not meant to be if this is
9 adopted, this is where portfolio is going
10 tomorrow. I think it's important to point out.
11 This is not meant to be that. This is meant to
12 be a long term 30-year plus investment
13 guidelines. Again, if this gets adopted, the
14 thought is these are long term strategic targets.

15 And then based upon current market
16 position, do we gravitate in that direction? If
17 we do, what's the pace of that --

18 MR. BUTKOVITZ: Don't the analyses say
19 there is going to be this unraveling of the
20 European market? And therefore, even the long
21 term view right now is pretty negative. So, do
22 you have evidence or reason to -- or am I wrong?

23 MR. AMMATURO: Where we have discretion
24 we are underweight international equity in client

1 portfolio. It's not asset class we are looking
2 to aggressively add by any stretch. We are
3 underweight internationally, I believe. Where we
4 have discretion in your underweight international
5 equity in your current pension plan.

6 MR. BUTKOVITZ: How can we make a
7 projection about -- we are going to skip over
8 everything that we know. It's a little bit like
9 the Five Year Plan that the City does. What we
10 know is the next year, and then we are kind of
11 guessing about what happens in five years.

12 So, we say that we're entering a patch
13 that's going to be very volatile, very dangerous
14 internationally. But for some unstated reason,
15 we have confidence that it's going to be very
16 positive over the long term.

17 MR. AMMATURO: But the low end of the
18 range is 10 percent. If you look at what we're
19 proposing, the low end of the range is
20 10 percent. It's not like we don't have -- we're
21 not saying we need to go to 20 percent. The low
22 end of the range is 10 percent. Based upon
23 current market conditions what we at PFM
24 recommend, we are going to be recommending

1 underweight international equity even though the
2 long term targets may be increasing.

3 Does that make sense? The ranges are
4 wider.

5 MR. BUTKOVITZ: The only problem I have
6 is voting for a plan that seems to endorse a more
7 aggressive posture with international equities
8 when all the evidence, miscounted --

9 (Conversation held among the PFM people.)

10 MR. GOLDSMITH: Maybe it's -- for my own
11 thoughts, I think long term is 30 years and
12 beyond. That's the duration of the liabilities
13 in this portfolio.

14 MR. BUTKOVITZ: My question would be,
15 what are the building blocks that get you to 30?

16 MR. GOLDSMITH: It's productivity
17 growth, population growth and the emergence I
18 think of the global economy. I think the U.S.
19 right now is 45 percent of global market cap. I
20 expect that over 30 years to shrink. And you
21 know, where is the population growth occurring
22 right now? It's occurring in emerging economies,
23 emerging markets. It's slowly developed
24 economies in the U.S. I think the extreme long

1 population growth is just point 6 percent.

2 And so, the extreme long term, I -- we
3 do believe in the growth and international
4 markets.

5 MR. BUTKOVITZ: You're basically
6 shorting the domestic markets over the long term.

7 Is that the idea?

8 MR. GOLDSMITH: I don't think we're
9 shorting. I think it's -- short to me is
10 specific tree, I'm thinking. But it's a shift
11 towards emerging markets and the asset allocation
12 or towards the international markets because
13 international copies. It is a trade between U.S.
14 and -- that's reflected here. I think --

15 MR. BUTKOVITZ: What about the
16 international momentum towards withdrawal from
17 world markets? Is that factored in?

18 Are you saying the international markets
19 are growing no matter what policies or
20 procedures?

21 MR. GOLDSMITH: I can't say that. I
22 don't think really anyone could. But how I view
23 this current situation, I view it as an
24 intermediate situation, a blip. It's certainly

1 impacting policy. It's impacting formal
2 legislative policy overseas. But it requires
3 short term tactical abilities. And I think
4 that's what the framework of this document allows
5 for. It allows to go even lower than current
6 target. Right now currently, 12 percent is the
7 minimum allocation to international equity.
8 Under the new framework, it can go as low as 10.

9 But I think -- who is to say in 15 years
10 there may be another Brexit from something else.

11
12 MR. BUTKOVITZ: Another 15 months there
13 might not be a European Union, right? You got
14 five countries talking about withdrawing the
15 presidential election, where a lot of people here
16 are talking about withdrawal from the world
17 before -- interfering with flows of capital.

18 MR. AMMATURO: You don't think this
19 supports that? Again, to the point Alex just
20 raised, this lowers your --

21 MR. BUTKOVITZ: But it also gives us
22 greater flexibility on the higher end, right?

23 MR. GOLDSMITH: Yes. There is also the
24 possibility that in the long run, the Brexit and

1 ensuing exits are better than what we have now
2 maybe. You know, 30 years from now we may look
3 back on the Brexit as a good decision for the UK.
4 That, we have no clarity to that now, I think.
5 In the intermediate term, it's a huge risk. This
6 gives us increased flexibility over the
7 intermediate in the near term. I don't think
8 that the Brexit is a Dooms Day device for
9 international equities 30 years and beyond.

10 MR. BUTKOVITZ: So, is the basic
11 argument for this that it gives you a freer hand
12 to react?

13 MR. GOLDSMITH: It gives you a freer
14 hand to react.

15 MR. AMMATURO: We don't have discretion.
16 It gives us the freer hand to give
17 recommendations, to be more tactical, yes.

18 MR. GOLDSMITH: Right now -- sorry.

19 MR. AMMATURO: We meet every two months.
20 It gives us the ability to give our
21 recommendations every two months to more nimble
22 and more tactical. Yes, to your question. Yes,
23 it does. The range is fairly restrictive. Your
24 range was 12 to 18. That's pretty tight. That's

1 pretty tight. That's being committed regardless
2 of Brexit, regardless of what global economies
3 do. That's tight range.

4 MR. GOLDSMITH: Right now I think the
5 international equity is at 14 percent. And you
6 know, we're talking about raising -- we have
7 conversations through the week about raising cash
8 for benefit payments. If we wanted a source of
9 some additional cash from international equity,
10 maybe bumping up against that 12 percent target
11 at some point. My recommendations have been
12 recently to source some recent cash from
13 international primarily for the current risk
14 environment.

15 So you know, we continue down that path
16 as we may, we could end up bumping up against the
17 12 percent.

18 MS. JOHNSON: I think is it fair to say
19 that the proposed amended targets is not where
20 you would want it to be today, but something -- a
21 goal to reach to staying within these ranges --
22 to proposed new ranges?

23 MR. AMMATURO: Yes. Correct.

24 CHAIRMAN SCOTT: For me, it was a whole

1 lot to digest in a very short period of time. I
2 stated that as someone that I spoke with.

3 I'm just wondering is if we were to
4 delay a decision on this until, at least for me,
5 I had an opportunity to fully understand the
6 rational logic behind these recommendations, does
7 that put us in a negative position or?

8 MR. DIFUSCO: No. If after they finish
9 their suggestions you wanted to table it until
10 September, that would not cause -- because of the
11 RFPs, we are not going to have manager interviews
12 and such. I don't see tabling it until the next
13 meeting causing any problems at all.

14 MR. GOLDSMITH: For investment policy
15 statements in general, these are not documents
16 that should be amended every quarter, every year.
17 It should be a well thought out decision to adopt
18 an investment policy for the long term. And so,
19 that's why I recommend fully understanding
20 everything. We don't want to be back here in a
21 year. That's also why we will get private equity
22 and such results. We have no plan to amend
23 alternatives currently. We don't want to be back
24 here in one year or two years amending or writing

1 another document like this.

2 With that, I think we can move on from
3 the targets.

4 MR. RUBIN: Hold on. Before you move
5 on, is this what other pension plans are doing
6 now in terms of all caps and all the different
7 investments that are there? Instead of saying
8 large cap/small cap, you are now combining them.
9 Is that something that other pension funds are
10 moving in the same direction, or is this sort of
11 new? Because I don't know of any other fund that
12 does it that way.

13 MR. GOLDSMITH: That's not what we have
14 recommended to the vast majority of our clients,
15 both discretion and non-discretionary clients,
16 for the past five years or so at least since I've
17 been with PFM. Speaking, I was the main fund of
18 the City does it differently. I don't know,
19 Marc, if you can speak to some other clients or
20 plans that we don't manage that take an all cap
21 approach.

22 MR. AMMATURO: Yeah. Yeah. Trying to
23 think, Bill, of the clients. I think it's
24 actually fairly mixed. When I think about the

1 other client base that I service, a good bit of
2 them do have strictly domestic equity target.
3 And then there's quite a few that get granular.
4 PGW currently does and splits it by
5 capitalization. It's hard to give you -- it's
6 hard to give you an exact answer in terms of
7 trend. I think I see both out there in the
8 market place.

9 MR. RUBIN: How do we end up not chasing
10 returns and kind of market hopping? Because now
11 we see large cap is in favor, so we're trying to
12 get large cap managers in by the time you're very
13 familiar with, obviously, the public strategy.
14 By the time we recognize it, bringing managers,
15 hire managers, get them legally through the
16 system, it's now changed again.

17 MR. AMMATURO: What we are doing there,
18 Bill, is hiring managers and kind of putting them
19 on the bench. We are going to have managers come
20 in, we're going to interview them and approve
21 them. We may not give them dollar number one.
22 We are going to have them there to be ready for
23 when market conditions dictate this such manager
24 is a good time to be in the portfolio.

1 That's the thought process going
2 forward. We are doing three fixed income. We
3 are going to be working on three RFPs and fixed
4 income. That doesn't mean they are all going to
5 be getting dollars once we decide who we want to
6 do business with. That means they are going to
7 be ready based upon how market conditions
8 dictate. Okay, now we should diversify. It's
9 more that.

10 MR. RUBIN: Let me understand that
11 process. The Board is going to get three
12 managers to take a look at. We are going to
13 possibly or not select one of them. And then we
14 are going to watch them over the period until we
15 believe it's time to invest in that area, and
16 then bring in one of the ones that we have
17 selected?

18 MR. AMMATURO: No. We are going to
19 select one -- take, for example, small -- we want
20 to add another emerging market equity manager.
21 We are going to interview three firms. We are
22 going -- you are going to select one.

23 And then we are going to determine that
24 PFM investment committee is now the time to

1 increase emerging market equity. Let's give that
2 manager at PGW some dollars. We will tell Chris
3 and Matt that. That manager will be hired and go
4 through the contract process, but will not
5 receive dollar one until the market dictates they
6 should be managing money for PGW. We don't want
7 to be hiring and emerging markets manager. We
8 can hire them, but we don't have to give them a
9 dollar of business.

10 Does that make sense?

11 MR. RUBIN: No. We are going to hire
12 them. Not give them any money.

13 MR. AMMATURO: Correct.

14 MR. RUBIN: And then when PFM thinks
15 that the market is trending their way --

16 MR. AMMATURO: Yep, yep.

17 MR. RUBIN: -- then you are going to
18 come back to us, say we now see a trend in small
19 cap growth.

20 MR. AMMATURO: Yes, yes.

21 MR. RUBIN: We think you should be fund
22 that manager.

23 MR. AMMATURO: Yes.

24 MR. RUBIN: The managers are going to be

1 okay getting hired without getting any money, and
2 we don't have to pay them any fees or do anything
3 while we have them hired?

4 MR. GOLDSMITH: No.

5 MR. RUBIN: You're saying yes; you're
6 saying no.

7 MR. DIFUSCO: Me mean the same. We are
8 answering different questions but mean the same
9 thing. It's not dissimilar to the process, Bill,
10 at the large fund where we hire bench managers,
11 if recall, under the Opportunity Fund umbrella.

12 MR. RUBIN: Okay.

13 MR. DIFUSCO: Where we go through the
14 contracting process and we say we are hiring
15 manager A, B and C. At the moment, we don't have
16 a need to allocate dollars to another small cap
17 manager. However, in the event that it's time
18 to, your contract you are ready to go. You're
19 there. And when we have come back to the Board
20 or Commission and say, now it makes sense. In
21 consultation with PFM, staff is recommending we
22 source \$20 million from here and move it to here.

23 But there is no ongoing fees. There is
24 no nothing because the fees are all asset based.

1 If the manager has no money, there is nothing --
2 there is nothing for them to charge against.

3 MR. GOLDSMITH: We will get into this a
4 little bit more when we talk about the core and
5 value growth. Marc kind of eluded to that
6 earlier. I think obviously our goal is to hire
7 managers that are fundamentally based managers
8 and will outperform in all markets regardless of
9 market condition. If we had managers who are
10 comfortable, we may not necessarily need to add a
11 manager. We can reduce the allocations
12 internally. That's an easier way to react or
13 proactively position ahead of, you know, if we
14 see market fundamentals.

15 MR. RUBIN: Which takes me to my next
16 question. You take money when a manager is not
17 performing well. Does that mean that we would
18 just reduce them down and hold them on the bench
19 until they did perform well? Or does that mean
20 when you take the money away, we would end our
21 relationship with that manager?

22 MR. GOLDSMITH: It wouldn't necessarily
23 be a -- this would be an asset class decision.

24 MR. AMMATURO: That's the key. That's

1 the key. It's asset class decision, not a
2 manager.

3 MR. RUBIN: If we switch from large cap
4 to small cap and took the money away from our
5 large cap manager, would we keep the large cap
6 manager and put them on the sideline until we
7 felt that large cap was back in style and would
8 go back to this same manager? So, they're not
9 fired, it would just take the money away?

10 MR. AMMATURO: We would trim them. You
11 are speak about extremes. I don't envision going
12 to zero with large cap. It would be trimmed.

13 MR. RUBIN: They would be trimmed. Not
14 based on their performance, it's based on what we
15 see as the trend.

16 MR. GOLDSMITH: Good example would be
17 emerging markets. There could be a very bad
18 event at emerging markets. We want to remove it
19 entirely from the portfolio.

20 Dimensional is a fine manager. They are
21 very good with emerging market space. We may
22 totally reduce that allocation to zero, keep them
23 on. They wouldn't be charging fees. And then
24 when the fundamentals indicate going back into

1 emerging markets, we can add to Dimensional.

2 That would be fully allowable in the framework of
3 both this document, your previous document.

4 MR. AMMATURO: But again, I want to
5 clarify. We are speaking in extremes here. I
6 think it's more likely we are going to be
7 reducing and adding managers based on asset class
8 position that PFM sees in the markets and is not
9 extremes going to zero, going back in, going to
10 zero. We are not day traders here by any
11 stretch.

12 MR. RUBIN: Marc, timing is my problem.

13 MR. AMMATURO: Yeah. We are trying to
14 add value around the edges. When Brexit
15 occurred, we reduced international equity before
16 the vote and reduced it even further after the
17 vote when we had discretion.

18 Just as an example, we reduced high
19 yield after Brexit because of heightened
20 volatility.

21 Again, at the end of the day, we are
22 going to be voicing these recommendations.
23 Whatever we are doing as an investment community
24 under discretionary assets, we are going to be

1 voicing them here to you. And then we will see
2 it if I makes sense for PGW pension, as well.

3 MR. GOLDSMITH: Set to move on?

4 The next on page 4 now, that was the
5 targets and the asset allocation framework is one
6 thing. Another theme is in the allowable and
7 non-allowable investments. And that's what we
8 have here.

9 So the current framework is one of, I
10 guess, it's inclusionary structure. These are
11 the types of securities that are allowed. They
12 are all listed here for domestic equity,
13 international equity and fixed income. I think
14 we moved to an approach where -- I have to find
15 it in this document. It's exclusionary approach.
16 We list what is not allowed. I, frankly, think
17 that makes it a little more simple. You can list
18 things that are allowed. List things that aren't
19 allowed. If one security type isn't listed,
20 where does that fall. I think from a government
21 standpoint, it is safer to explicitly note what
22 is not allowed in the portfolio. That's the text
23 on 4, 5 and 6 that is grade out. Are these --
24 this is what's allowed. And those have been

1 crossed out.

2 On the following section, you will see
3 diversification. Previously, the diversification
4 requires things such as on page 7 in that no more
5 than greater of 20 percent or three times the
6 applicable benchmark in that section weighting
7 may be invested in any one market sector at one
8 time. So that is a -- these are restrictions
9 that apply to each individual manager. Each
10 manager has to adhere to their benchmark, and
11 have no more than 20 percent or three times the
12 benchmark weighting in any one sector.

13 What those types of restrictions do are
14 they prohibit certain concentrated managers that
15 may hold a limited number of securities. This is
16 a sector weighting. They are also limit in
17 securities. No more than 10 percent may be
18 invested in any one company. If there's a fund
19 that is very, very concentrated and the manager
20 only holds ten stocks, certainly a risky
21 strategy. There is a lot to be said about
22 concentrated portfolio and high conviction names
23 the manager has.

24 Those can have a place in the portfolio.

1 Those are precluded by this framework. We have
2 changed the diversification requirements to apply
3 to the total portfolio. So, all the managers
4 rolled up. You can see that at the top of page
5 7. It's when all the managers, all the holdings
6 are combined. You can have no more than
7 5 percent or the weighting in the relevant index
8 of the total equity portfolio in one corporation.

9 So at the total portfolio level, no more
10 than 5 percent in any one name. And then you can
11 some concentrated managers offset by less
12 concentrated managers or index funds, which is
13 the opposite of concentration. From the
14 monitoring standpoint, that would be monitored
15 both by us as we gather the holdings quarterly
16 and prepare a portfolio characteristics and then
17 staff would monitor those exhibits, as well.

18 That's how we make sure the 5 percent
19 limit at the total portfolio level is adhered to.

20 MR. RUBIN: When you guys did this, was
21 there a legal opinion if all the changes were
22 okay and we have the ability to change some of
23 this? And from a steward perspective, do you
24 know why it was written that way in any way when

1 they put it together?

2 MR. GOLDSMITH: I can't answer the
3 historical question. I don't think I can answer
4 the legal question either. I think that can be
5 staff or, you know, I would assume it have to be
6 vetted by a legal team. But a lot of these
7 changes that I included is text from existing
8 investment policy statements and existing plan
9 sponsors in public plans. So, it's language that
10 has been used. It's currently in use elsewhere.

11 MR. DIFUSCO: Adam, you and I talked
12 about it briefly.

13 MR. COLEMAN: I think on a general
14 level, we can definitely do more research on
15 this. I think it's the Board's discretion to
16 make changes to the IPS as long as they are
17 consistent with fiduciary duties. That is really
18 why we are here. We are doing this analysis to
19 make sure that we cover -- the Board is covered
20 as far as taking the steps to ensure that they
21 are compliant.

22 MR. GOLDSMITH: Talking about some high
23 flow themes right not moving from an inclusionary
24 to exclusionary, moving from manager level to

1 portfolio level diversification guidelines. I
2 want to focus can on some specific things right
3 now that preclude this is why we did this in the
4 first place that precluded some of the RFPs that
5 are either currently at issue or will be issued
6 soon.

7 On page 8 you can see there in the top,
8 no more than 20 percent of U.S. dollar dominated
9 investment grade, non-U.S. debt. You can't have
10 more than 20 percent in non-U.S. fixed income.
11 No more than 25 percent in domestic asset banks.
12 No more than 15 percent in commercial mortgage
13 bank. These are all potential securities that
14 could conceivably be in investment grade, nimble
15 actively managed investment grade credit
16 portfolio, which we currently have an RFP for.
17 And thus, a manager could hold that.

18 By going to a total portfolio level
19 guideline, we can again add that credit manager
20 that has some mortgage backed credit, has some
21 corporate commercial paper. On the other page
22 you will notice, page 9, you can see convertible
23 bonds, fixed income security, domestic bonds.
24 About halfway down the page Letter A, which is

1 crossed, must be rated investment grade or better
2 by at least two of the rating agencies. For
3 similar reasons, that has been stuck from the
4 portfolio -- from the policy.

5 Again, some of the down the road themes
6 I am looking at Letter C there, limited market
7 building securities. These are the private
8 equity, private placement type securities. No
9 plan to put this in the portfolio now. But in
10 looking to the future, that has been struck. It
11 may be something that we want to include. This
12 is all obvious up for debate, up for
13 recommendation. We can -- we don't have to go
14 down that road now. It can be done as an
15 amendment. If we want to get this in the optimal
16 shape, that's why that has been removed.

17 Moving on. You can see where we have
18 eliminated the rest of these restrictive
19 diversification requirements. We allowed the
20 duration -- the duration requirement hadn't
21 changed that was previously required at the
22 overall portfolio level. So you know, that
23 was -- that has been amended. You see the
24 duration for the total fixed income portfolio.

1 Again, just taking away from individual managers.
2 And then that section of prohibitive investments
3 which include, you know, leverage investments
4 which we don't feel replace the portfolio.

5 The final main theme of what is changing
6 here is on page 13 under the objectives. This is
7 where I was getting into the benchmarking
8 discussion. So we don't -- no change to the
9 goal. We want to exceed by 60 basis point on a
10 net basis. But what did change, we changed the
11 -- this gets back to your question about the all
12 cap, Bill. We changed the allocation framework
13 to an all cap more broad framework. The
14 benchmark should correspond, move to an all cap
15 Russell 3000 benchmark, total international. The
16 benchmark international equity component.

17 And then as we discussed earlier, the
18 Barclays Aggregate for the total fixed income
19 component which represents really the core U.S.
20 fixed income. That is what where we are trying
21 to be there.

22 We also noticed there is a lot of
23 information in here about the specific benchmarks
24 for every underlying subasset class. I feel that

1 that should not be included in an investment
2 policy document which again is designed to be
3 very rigid and for the long term. Manager
4 benchmarks are important, but they should be --
5 they shouldn't be codified in the document to
6 allow for, again, the potential addition of a
7 concentrated manager or a manager that maybe does
8 a little more non-core or added flavor of
9 benchmark. Kind of silly to have them codified
10 as this is what they have to do.

11 MR. MAZZA: Grant it, it makes us from a
12 legal standpoint, makes us a little more rigid in
13 terms of definition that we provide in the IPS,
14 correct? We are defining benchmarks in the IPS.
15 It kind of puts a little more on us.

16 MR. GOLDSMITH: Right. You don't want
17 to be in violation of this. The ultimate reason
18 for making it more fluid and open is to prevent
19 violations, because that's bad headline risk.
20 And if there were ever to be -- performance were
21 to flag in non-compliance status, that is not
22 good.

23 MR. MAZZA: Like I said in the past,
24 indices are bought out all the time. Bloomberg

1 just bought indices of Barclays. If we have the
2 wrong definition in the IPS, the IPS is
3 technically wrong, right? We can say that, you
4 know.

5 MR. GOLDSMITH: We ask, where does this
6 get codified then? It's codified in the
7 investment manager agreement. So when you
8 approve a manager when they are hired, they sign
9 an investment manager agreement. That's when you
10 can -- you assign a benchmark. And you sign you
11 will meet this benchmark by whether it's
12 previously it was 20 basis points for some fixed
13 income, you set your outperformance targets and
14 the benchmark individually as you hire the
15 manager.

16 At the total portfolio level, we are
17 still looking for all the managers in aggregate
18 to beat this simplified benchmark. But that is
19 why we are taking the active manager positions
20 and the allocation positions, adding high yield
21 and adding emerging debt, et cetera. Those are
22 allocation positions that will get us
23 outperformance. But the manager is for their
24 individual strategy, they will have appropriate

1 benchmark in the management.

2 On page 15, we get to communications and
3 responsibilities. Nothing changed that section.
4 It's very minor language in terms of consultant
5 custodian. It's nominal stuff. And again,
6 similarly just to simplify, streamline the
7 document, I moved the definition in the appendix
8 to the end. A lot of that applied to the
9 benchmarks which are no longer in this document.

10 So yes, to put it all back together,
11 there is a lot changing. It's important to fully
12 understand the new framework and if you are on
13 board. It is setting the strategic direction for
14 the portfolio.

15 MR. MAZZA: Now in your opinion, in
16 terms of the investment policy statement, should
17 we have termination language in there to discuss
18 with managers if they aren't beating the
19 benchmark? Or should it just be for the
20 investment management contract?

21 MR. GOLDSMITH: My recommendation would
22 be to have that in the contract. Though, I
23 also -- I don't love termination requirements
24 because then it, again, if you got a manager

1 that's underperforming, are you required to
2 terminate that manager? And this kind of ties
3 back into some stuff Bill was saying. We are
4 following performance. As performance goes down,
5 we get a manager out. That's not always the best
6 time to determine --

7 MR. MAZZA: Sure. I am saying over long
8 term.

9 MR. GOLDSMITH: Sure. If you have
10 termination language that make require you to
11 terminate a manager due to performance. But
12 fundamentally, you still like them. Maybe their
13 asset class has suffered, you might be that your
14 hands are tied. You have to get a manager out,
15 you still like them, and than you end up
16 outperforming later on.

17 MR. MAZZA: Put them on a watch list, so
18 to speak?

19 MR. GOLDSMITH: Yeah. I have seen
20 planned sponsors that have codified watch list
21 language at the policy level and in the managers
22 subscription level. I still prefer to have -- if
23 you are going to could have that, I'd have it at
24 manager subscription at that level.

1 Thank you. Appreciate the time.

2 CHAIRMAN SCOTT: My position on this,
3 and I welcome input from the other commissioners
4 here, is we ought to take a little more time to
5 fully understand and appreciate all the changes.

6 And so, I'd like to table it. But I'm
7 open to what you guys would like to do.

8 MS. JOHNSON: I think that's reasonable.
9 And I just want to talk a little bit more about
10 where this is a little bit more conservative than
11 what the original policy is and what some of the
12 proposed changes are. And I know we want to look
13 at some options.

14 But what does that truly mean for --

15 MR. GOLDSMITH: We can amend this
16 further, too, and add back some of the
17 restrictions if, you know. But the themes are
18 what I wanted to cover today, these core
19 concepts.

20 MS. JOHNSON: Sure. Sure.

21 MR. DIFUSCO: We can obviously have
22 discussions with anybody offline in the interim
23 about specific points if you want additional
24 detail on specific pieces of points. We are

1 happy to have discussions offline in the interim.

2 CHAIRMAN SCOTT: Excellent. So, I think
3 we are now item number seven; am I right?

4 MR. AMMATURO: Yes.

5 CHAIRMAN SCOTT: Large Cap Growth RFP
6 recommendations.

7 MR. GOLDSMITH: I will direct your
8 attention to the last tab titled Core Equity. I
9 have an additional handout here, as well.

10 There was an RFP for large cap growth.
11 This was issued before we assumed our role. And
12 I think originally the managers were to come in
13 to interview the March meeting, was pushed back.
14 And staff said, well, let's wait a second. Do we
15 even want to add more to this portfolio. There
16 was conversation about fees and management do
17 they under performing. Our response was, yes,
18 even in the large cap space we believe there are
19 active managers that can beat the S&P 500 or the
20 Russell 1000 index.

21 The next question was, do we continue
22 with this framework we have of one growth
23 manager, one value manager and then the index
24 fund which are core and standard. I think our

1 recommended approach would be to go with a core
2 manager rather than two style groups of valuing
3 growth. You saw when Marc covered the
4 performance earlier, the disparity between valued
5 growth this year. It's pretty significant. I
6 will show data shortly that shows the disparity
7 in other calendar years. And while that's driven
8 by fundamentals, there's really no discernible
9 pattern to that. We don't want to try to time
10 the market.

11 You either have both and performances
12 offset and you end up getting a core approach.
13 If that's the outcome anyway, I think we would
14 rather have core to start with and then allow for
15 those managers to look for themselves, build a
16 portfolios that they want to outperform a core
17 benchmark.

18 So, I will direct your attention to what
19 I passed out. This is the weighting of the S&P
20 500, the Russell 1000 growth, the Russell 1000
21 value across the various industry sectors. When
22 a manager -- you saw this in the investment
23 policy, managers can't be more than X percent
24 above or below a sector weight. So, they have to

1 pay close attention to the weightings of these
2 sectors and their benchmark. Because of the
3 different nature of value and growth stocks,
4 certain sectors will be over or underrepresented
5 in any given sector -- index.

6 Technology is an easy one to see. 29
7 percent of the growth index, 9 percent of the
8 value index. For the S&P 500, core is about
9 20 percent. Similarly, healthcare is another
10 growth sector. On the flipside, traditional
11 value sectors, I think you can see financials
12 energy is a big value sector.

13 And when you have that weight in your
14 benchmark, you're not looking for the best stocks
15 across all sectors. You are looking for the best
16 stocks in these sectors. It's that's not a
17 fundamental decision. We prefer fundamental
18 investment managers that can determine in their
19 own rate whether value or growth, whether they
20 live value or growth given the current market,
21 whether they like healthcare or energy given the
22 current market. They are not dictated by their
23 benchmark. That is the first exhibit.

24 MR. AMMATURO: Now just to amplify that.

1 Right now at PGW, you have managers that manage
2 two Russell 1000 growth. You have managers that
3 manage to value benchmark and growth benchmark.
4 We are trying to communicate here is does it make
5 more sense to have managers that manage a core
6 benchmark with less concentration -- sector
7 concentration. That's the takeaway.

8 If you look at S&P 500, as Alex pointed
9 out financials. It's huge in the value space.
10 It's very small in the growth space. When I hire
11 managers, that will manage to a 15 percent
12 financials as opposed to trying to get managers
13 underweight financial and managers of overweight
14 financials relative to the core market, if that
15 makes any sense? Just kind of amplify the main
16 point we are trying to communicate.

17 Again, this is a round. Fred Alger, do
18 we want to hire growth managers to potentially
19 replace them or retain Fred Alger? Or do we take
20 a different approach and issue a core domestic
21 equity RFP. Just trying to level set where we
22 are in this conversation.

23 MR. GOLDSMITH: On the following pages,
24 again, this shows the performance of the indices.

1 It is divided in three sections on the following
2 page. Index performance, large cap, small cap
3 and international developed equity. And then you
4 have a core, which is the bold line and then
5 value and growth.

6 I think you can see, you know, taking
7 last year, for example, growth significantly
8 outperformed value. This year, as Marc
9 indicated, value is significantly outperforming
10 growth. Now there are fundamental explanations
11 why, but surely just trying to -- again, we don't
12 time the markets. That's a decision that can't
13 be made. You will see some years they are,
14 frankly, very close; others minor differences;
15 others significant differences, both the upside
16 and the downside. You know, I think 2006 is
17 interesting to note significant value
18 outperformance.

19 The other trend here I will point out
20 that this adheres across large, small and
21 international. Moving onto the following
22 exhibit, these are index returns. You can argue
23 what about active manager. Can active managers,
24 you know, with their ability to pick different

1 portfolios, can they overcome their value growth
2 bias? And really, it's no. You will see that
3 even last year, these are the median of their
4 respective peer groups. The peer group of large
5 cap core managers, the median performance there
6 was 1.3 percent for 2015. As you can see, even
7 active managers, the median large cap growth
8 managers significantly outperformed the median
9 large cap value manager over the last year. It
10 persists going back to '05. It holds across
11 large, small and international.

12 And you know really -- you will look at
13 the core performance. It's kind of right down
14 the middle there in those instances. We prefer
15 to at least have that performance or better with
16 core fundamental-based managers. One manager,
17 you can have two. Think that's a decision for
18 allocation. But that's our rationale for
19 recommending core.

20 The RFP has been issued. We received
21 submissions. We reviewed them. You might say
22 are there any core managers we can add? The very
23 last page you will see the list of respondents.
24 And you know, the name, the strategic name,

1 clearly growth. But we have some stats there,
2 price to earnings. These are just valuation
3 metrics. Growth managers typically tend to have
4 higher PE, higher price-to-book ratios. You can
5 see earnings growth rates are obviously going to
6 be higher and yields will typically be lower.

7 So you know, Russell 1000 and S&P 500
8 core data at the top. If you look at all the
9 managers, it's really indicative of these are
10 pure growth respondents. So, our recommendation
11 would be to pull this RFP and reissue a new core
12 approach. Let's solicit a number of responses
13 and add one or two core managers to the portfolio
14 in large cap space.

15 Ultimately, as I mentioned, I think this
16 trends holds across small as well as
17 international. I recommend those changes, as
18 well. But I think we have a lot of RFPs on the
19 table. I think it makes sense to finally move
20 through these.

21 MR. MAZZA: In terms of local managers
22 as well, I can recognize one that's on this list
23 and that's Local Capital, correct?

24 MR. GOLDSMITH: Let's see. Who else?

1 MR. DIFUSCO: I'm not even sure that's
2 the same.

3 MR. MAZZA: There's a Local Capital
4 base.

5 MR. DIFUSCO: That's the local one?

6 MR. MAZZA: Yes.

7 MR. DIFUSCO: Okay. They're in Philly.

8 MR. MAZZA: I think they're in Malvern
9 or Radnor, one of those towns.

10 MR. GOLDSMITH: In conjunction with
11 this, we have submitted a draft questionnaire as
12 well as a draft RFP to the staff so it can be
13 issued quickly. We submitted also an updated
14 screen. I think I sent over 150 or so managers
15 including a range of local managers we both like
16 currently and some minority, women-owned
17 businesses as well in the list. We vetted them.
18 They are core approach. We would be inviting
19 them if this RFP goes out.

20 MR. MAZZA: They are in Haverford.

21 MR. DIFUSCO: My only recommended tweak
22 to what Alex said would be to not officially pull
23 or cancel the RFP with these candidates because
24 in the event that we don't like the core

1 candidates or in reviewing the asset allocation
2 as Donn and Al or Rasheia still have questions,
3 if we decided we didn't want to go the core
4 route, if you officially cancel this -- that's
5 what I was asking Adam about -- my only
6 recommended tweak would be fully support the
7 recommendation to issue the RFP. Just would not
8 want to officially cancel or invalidate the
9 responses. That's my only recommendation, like,
10 my only addition.

11 MR. GOLDSMITH: Fine.

12 CHAIRMAN SCOTT: Works for me. Is that
13 okay?

14 MR. MAZZA: Want to take a vote on that?

15 CHAIRMAN SCOTT: Do we need to?

16 MR. DIFUSCO: Just to issue the core
17 RFP. That's all.

18 MS. JOHNSON: And not pull?

19 MR. DIFUSCO: We don't have to have a
20 vote, but just to issue the core part.

21 CHAIRMAN SCOTT: So whether we --

22 MR. MAZZA: Just should we issue the RFP
23 for core.

24 CHAIRMAN SCOTT: Does someone make a

1 motion?

2 MS. JOHNSON: I'll make the motion.

3 MR. BUTKOVITZ: I'll second.

4 CHAIRMAN SCOTT: Motion has been made
5 and properly second. And I assume it's in the
6 minutes.

7 All those in favor?

8 (Ayes.)

9 CHAIRMAN SCOTT: The ayes have it.

10 MR. MAZZA: Nice job, Mr. Chairman.

11 MR. GOLDSMITH: Going back, these are
12 managers that are core across different market
13 conditions that we can dial up or dial down.

14 CHAIRMAN SCOTT: This now takes us, I
15 think, to the International Equity Index.

16 MR. GOLDSMITH: This is second to last
17 tab index. This was another RFP that was issued
18 for, we assumed, our role. There were three
19 respondents. And ultimately, it's for index
20 strategy.

21 I think what we look for here is ability
22 to replicate the index, ability to exclude or
23 restrict the securities for the Sandy Hook and
24 Northern Ireland restrictions, and the ability to

1 do all that at the most effective fee.

2 Our recommendation again is RhumbLine.
3 They have the lowest fee of the respondents. I
4 met with them several times in the last -- this
5 year. And you know, I think they're -- the
6 hallmark of what they do is customization and
7 client service. They will be able to work for
8 PGW for those exclusions. And you know, that's
9 ultimately what's most important.

10 The last page of this section is, you
11 know, if we were to get -- mentioned you can
12 approve a manager, you don't have to implement or
13 give them assets right away. There is lot going
14 on in international equity. You know, do I favor
15 moving back to the 15 percent target right now?
16 No. We are underway. This is as of this data
17 here is as of June 20 when I sent it over. Now I
18 think we are a little in the 14 percent range.

19 But do I recommend rebalancing? No.
20 Would I add this index fund now? Yes.

21 And you can see in the bottom, frankly,
22 it's to reduce active management risk, the risk
23 that active managers miss their benchmark. And
24 also, effective lower fees. So going to, you

1 know, again, this 10 basis points from I think
2 monitoring the DFA are in the close to 1 percent
3 range. That's where these 24 basis points and
4 fee savings come from.

5 The other issue here is you can see, we
6 think these are developed strategies we have.
7 Well, Harding Loevner has about 15 percent in
8 emerging markets. At their current weighting in
9 the portfolio, what does that do? It has your
10 emerging market allocation there in the upper
11 right at 37 percent, which is decent overweight
12 to the emerging markets weighted within the
13 international index which I think is closer to
14 20 percent.

15 So we like a -- in adding the index
16 which is developed only, we like to shift those
17 weights around, increase the allocation to the
18 index. Again, it's passive lower fees as well
19 purely developed. And then lower the allocation
20 or at least the target to the emerging markets
21 and the other managers. It reduces active
22 management risk and then lowers the overall
23 emerging markets weighting at the total portfolio
24 level, which I think is warranted for the long

1 term.

2 So obviously, there's another -- we
3 recommend taking the international equity
4 20 percent in the investment policy. We're
5 not -- you know, that hasn't been approved. We
6 are still in discussions there. Obviously, I
7 think if we were to go to a 20 percent, this
8 would change a little bit on the target side.
9 But again from an implementation standpoint, we
10 would move there as conditions warranted. But
11 right now, yes, I think the portfolio can
12 accommodate a -- an index fund in international
13 equity.

14 MR. MAZZA: Does the Board want to vote
15 on hiring RhumbLine for international equity
16 index manager, passive manager?

17 CHAIRMAN SCOTT: I think we do.

18 Is RhumbLine an existing fund manager?

19 MR. MAZZA: We visited them up in
20 September. They had a very impressive shop.

21 CHAIRMAN SCOTT: We can save 24 basis
22 points?

23 MR. MAZZA: Indexing is very much
24 cheaper alternative than to active manager.

1 Active managers, like I said many times before,
2 are on top of the benchmark, you know, 95
3 percent. And they're charging a lot more in
4 terms of -- especially in this space compared to
5 going to passive manager and being to able save a
6 lot of fees and getting the same return.

7 CHAIRMAN SCOTT: Okay. Then I think we
8 ought to move forward with our resolution.

9 Is there a motion?

10 MS. JOHNSON: I make a motion.

11 MR. BUTKOVITZ: Second.

12 CHAIRMAN SCOTT: Motion has been made
13 and properly seconded.

14 All those in favor?

15 (Ayes.)

16 CHAIRMAN SCOTT: Ayes have it.

17 MR. GOLDSMITH: In terms of
18 implementation of weight, does that need to be
19 voted on or does that -- how does that proceed?
20 Do we want to make a rebalancing page?

21 MR. MAZZA: I think we want to rebalance
22 from the manager and put an allocation towards
23 RhumbLine.

24 MR. GOLDSMITH: Does it need to be voted

1 on?

2 MR. DIFUSCO: I think -- well, in this
3 case, since it's not an initial -- since it's not
4 a kind of like around the edges rebalancing,
5 yeah. It's more like an initial allocation to an
6 existing manager. It makes sense to me that the
7 Commissioners are comfortable even if it's within
8 give or take a couple basis points or a few
9 dollars, yeah. I think to the extent we can --
10 they should be comfortable formally approving.

11 We are talking about proposed allocation
12 of between whatever, 4 and 5 percent, whatever
13 the percentages are. I think it make sense to
14 have your approval for that.

15 CHAIRMAN SCOTT: What are you
16 recommending in terms of the allocation?

17 MR. GOLDSMITH: I would recommend
18 5.5 percent allocation.

19 CHAIRMAN SCOTT: That 5.5 percent
20 allocation would mean that one of our managers
21 would be reduced?

22 MR. DIFUSCO: Right. A couple of them.
23 So the existing on page 2 of the original
24 handout, Donn. So, we would take capital from,

1 you know, either Harding or DFA or Mondrain some,
2 you know, give or take a few dollars. But I
3 think at the top is where they are now. So 22,
4 23 and 20. And then under Alex and Marc and
5 PFM's proposed rebalancing which staff supports,
6 you would see what the numbers look like.

7 MR. MAZZA: Once again, these
8 international -- every member of the team makes
9 excess of 80 basis points.

10 MR. DIFUSCO: Yeah. It's very
11 expensive.

12 MR. MAZZA: Now, we are reallocating 5
13 and a half percent to a manager who is charging
14 us 10 basis points.

15 MR. DIFUSCO: Significant dollars.

16 MR. MAZZA: Savings right there.

17 MR. AMMATURO: Mondrian charges 88 basis
18 points, Harding is 58 basis points, DFA is 62
19 basis points. Just to close the loop.

20 CHAIRMAN SCOTT: Okay. So, what we're
21 going to vote on is allocation of the
22 5.5 percent?

23 MR. MAZZA: To RhumbLine.

24 MS. JOHNSON: Keeping that current

1 allocation at the 13.9 --

2 MR. DIFUSCO: The overall total.

3 MR. MAZZA: Yeah. Just the rebalance.

4 MS. JOHNSON: Okay.

5 CHAIRMAN SCOTT: Motion is on the floor.

6 All those in favor --

7 MS. JOHNSON: I made a motion.

8 CHAIRMAN SCOTT: There a second?

9 MR. BUTKOVITZ: Second.

10 CHAIRMAN SCOTT: All those in favor?

11 (Ayes.)

12 MR. MAZZA: Just want to make sure the
13 Controller's Office got their information from
14 PGW on the bonuses and the effect of their
15 pensions for the officers.

16 MR. RUBIN: We are on new business or is
17 that old business?

18 MR. DIFUSCO: Yeah. That was the last
19 of --

20 MR. MAZZA: Just making sure.

21 MR. RUBIN: We did get that information.
22 It was very helpful. I think from the staff
23 perspective, it should be helpful to you guys as
24 well understanding that we are putting out a lot

1 of money over the course of the year. How is
2 that fluctuating. So, it look like the average
3 pension is somewhere between 2 and 3,000 dollars
4 a month per employee. So assuming that they're
5 going to have X amount of retirements over the
6 next couple of years and that rate stays the
7 same, it should give us a projection of what we
8 need to return to be able to pay those benefits.
9 I think it did give us some insight into what we
10 need to do to get the allocations right.

11 Secondly, there was a bill that was put
12 through Council that changed the benefit
13 structure for a class of retirees when those
14 things happen, does that get handled by PGWs --

15 MR. MAZZA: I'm assuming so.

16 MR. RUBIN: -- group there we don't do
17 anything to benefit payouts?

18 MR. MAZZA: No. We just -- monthly
19 payments, that's what we're responsible for.

20 MR. RUBIN: When those kind of things
21 happen, do they notify you that it's going to
22 happen?

23 MR. MAZZA: I would assume so. We have
24 not received any notification yet.

1 MR. RUBIN: So one, I would ask that we
2 send a letter from the Commission asking for any
3 changes that go into PGW plan to be sent over so
4 that you can then add that also into the
5 calculations. I think from my understanding, the
6 change that Council approved was similar to what
7 we had, Chris, in the main fund for a trust to be
8 able to be set up for the beneficiary.

9 MR. DIFUSCO: Okay.

10 MR. RUBIN: And so, is there some --
11 because there is a legal issue of when they
12 received too much money, then they can't get the
13 benefits. I think that's what Council approved.
14 But that also may or may not add a cost to our
15 plan and how we look at it. So anything that
16 they are going to change that may effect how we
17 invest, if we could have them send that
18 legislation over to you guys so we can take a
19 look at it.

20 MR. MAZZA: Good.

21 MR. DIFUSCO: I would just also add that
22 the actuaries scheduled to come in, as far as I
23 know, first annual report in September. So to
24 the extent that legislation or any of the other

1 folks -- the letter that we sent out about the
2 retention payments or anything is in addition to
3 his actual overall report you have questions on,
4 you know, he should be here to answer them at the
5 next meeting, as well.

6 MR. RUBIN: Since you asked the
7 question. When they say it's over the IRS limits
8 and won't have an effect, what does that mean?

9 MR. MAZZA: I think what it means is
10 that they just make too much money for it to
11 actually -- their pension is already going to be
12 too much money for them to get any net effect of
13 the bonus payouts. Is that --

14 MR. DIFUSCO: Yeah. The IRS -- Ellen
15 you maybe familiar with this or Adam.

16 The IRS sets an annual limit in terms of
17 compensation and what can be paid out, you know,
18 in terms of deferred comp or retirement. My
19 reading of Tom's letter was they are already at a
20 level in terms of their income and where the
21 retirement benefits are going to be. There's not
22 going to --

23 MR. RUBIN: Does that mean there's a cap
24 on their retirement benefits?

1 MR. DIFUSCO: Yes.

2 MR. MAZZA: I would assume so, yeah.

3 MR. DIFUSCO: IRS cap on --

4 MS. BERKOWITZ: Well, with deferred
5 comp.

6 MR. RUBIN: That's pension payout.

7 MR. DIFUSCO: Retirement benefits
8 generally. It's a pretty high number. I want to
9 say it's -- I can get you the exact number. High
10 200s, low 300s. It's pretty -- in terms of
11 overall compensation.

12 MR. MAZZA: That was just the top two
13 executives.

14 MR. RUBIN: In a private company or
15 public company? I just wasn't familiar with that
16 IRS rule.

17 MR. DIFUSCO: I will.

18 MS. BERKOWITZ: We'll --

19 MR. DIFUSCO: I have a passing
20 familiarity with it. We can circle up with Law
21 and get you it.

22 MS. BERKOWITZ: There are definitely
23 elements for deferred compensation. I believe
24 Chris is correct, I just don't know what the word

1 is.

2 MR. DIFUSCO: We will put that together
3 and get it to everyone.

4 MR. MAZZA: Again, those bonus payouts
5 didn't effect any of the other folks on the list
6 assuming they will stay with PGW for a long
7 period of time.

8 CHAIRMAN SCOTT: All right. I think
9 this meeting is hereby adjourned. And it looks
10 like our next meeting is scheduled for
11 September 14, 11:00 a.m. and at the same
12 location.

13 Thank you all.

14 (Sinking Fund Commission July Meeting
15 adjourned at 12:25 p.m.)

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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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Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 1

A	28:15 54:6	74:4	38:24	11:17	50:5 68:5	66:4	54:4,14
a.m 1:17	67:10 78:2	Alger 14:3,10	amendment	approach 9:5	76:23 79:2	based 23:24	56:9
80:11	additional	15:8 62:17	25:10 52:15	9:12 26:3	assumed	29:7 31:15	beneficiary
abbreviated	22:21 24:20	62:19	Ammaturo	39:21 47:14	22:20 59:11	32:22 41:7	77:8
6:19	37:9 58:23	allocate 26:20	2:11 6:10	47:15 60:1	68:18	43:24 44:7	benefit 22:10
abilities 35:3	59:9	43:16	18:13 19:16	60:12 62:20	assuming	45:14,14	37:8 76:12
ability 6:2	Additionally	allocated	20:7 21:24	65:12 66:18	76:4,15	46:7	76:17
36:20 49:22	25:23	17:15	27:17 30:2	appropriate	80:6	basic 36:10	benefits 76:8
63:24 68:21	address 9:2	allocation	30:5 31:7	18:9,23	assumption	basically 34:5	77:13 78:21
68:22,24	adhere 48:10	20:4,8	31:23 32:17	55:24	13:6 27:21	basis 12:20	78:24 79:7
able 25:3	adhered	21:10,11	35:18 36:15	approval	27:22	12:22 13:19	Berkowitz
27:22 69:7	49:19	22:13,14,15	36:19 37:23	3:21 73:14	assumptions	14:14 16:3	2:14 79:4
72:5 76:8	adheres	24:23 27:3	39:22 40:17	approve 5:7	22:16	16:7,17	79:18,22
77:8	63:20	27:8 28:11	41:18 42:13	40:20 55:8	attention	53:9,10	best 57:5
accommoda...	adjourned	28:12,19,22	42:16,20,23	69:12	22:5 59:8	55:12 70:1	61:14,15
71:12	80:9,15	34:11 35:7	44:24 45:10	approved	60:18 61:1	70:3 71:21	better 36:1
account 4:18	adopt 38:17	45:22 47:5	46:4,13	25:16 71:5	average 76:2	73:8 74:9	52:1 64:15
4:19	adopted 31:9	53:12 55:20	59:4 61:24	77:6,13	awfully 3:15	74:14,17,18	beyond 14:19
accurately	31:13	55:22 64:18	74:17	approving	aye 4:4	74:19	33:12 36:9
81:5	age 3:9	67:1 70:10	amount 26:20	73:10	ayes 4:5 68:8	Bath 14:18	bias 64:2
achieve 27:22	agencies	70:17,19	27:16 76:5	approximat...	68:9 72:15	beat 55:18	big 7:7 8:21
active 14:3	24:14 52:2	72:22 73:5	amplify 61:24	1:16 29:9	72:16 75:11	59:19	9:8 61:12
16:15,24	AGENCY	73:11,16,18	62:15	area 41:15		beating 56:18	bill 2:13
55:19 59:19	1:21	73:20 74:21	analyses	areas 25:12	B	Bed 14:18	39:23 40:18
63:23,23	Agenda 6:6	75:1	31:18	argue 12:3	B 23:15 43:15	believe 5:13	43:9 53:12
64:7 69:22	9:13 20:8	allocations	analysis 6:7	63:22	back 5:2	32:3 34:3	57:3 76:11
69:23 70:21	agg 17:12	27:4 44:11	22:3,24	argument	10:20 16:7	41:15 59:18	binder 22:5
71:24 72:1	18:12 19:14	76:10	23:5 50:18	36:11	22:20 36:3	79:23	binders 5:13
actively 51:15	19:15,17,19	allow 25:13	analyze 13:5	aside 25:16	38:20,23	Ben 3:9	biotech 15:14
actual 78:3	19:21,23	28:18 54:6	and/or 81:18	asked 78:6	42:18 43:19	bench 40:19	15:15
actuarial	20:1	60:14	Angela 1:13	asking 67:5	45:7,8,24	43:10 44:18	bit 13:22
13:3,6	aggregate	allowable	81:11	77:2	46:9 53:11	benchmark	15:17 22:7
27:21,22	11:3 14:1,5	46:2 47:6	annual 77:23	asset 2:11,12	56:10 57:3	13:10 14:8	23:3 32:8
actuaries	17:5,6,16	allowed 47:11	78:16	20:4 22:13	58:16 59:13	15:5,12,23	40:1 44:4
77:22	17:24,24	47:16,18,19	answer 4:22	22:14 23:17	64:10 68:11	15:24 16:12	58:9,10
Adam 2:15	18:3,21	47:22,24	18:23 24:22	26:24 28:7	69:15	16:18,19,21	71:8
50:11 67:5	19:3 53:18	52:19	40:6 50:2,3	28:19,22	backed 4:19	17:10 18:8	blend 19:5
78:15	55:17	allows 30:24	78:4	32:1 34:11	23:17 51:20	18:10 19:2	blip 34:24
add 32:2	aggressive	35:4,5	answering	43:24 44:23	bad 45:17	19:20,24	blocks 33:15
41:20 44:10	33:7	alpha 13:15	43:8	45:1 46:7	54:19	20:5 48:6	Bloomberg
46:1,14	aggressively	16:13	anybody	47:5 51:11	ballpark 7:14	48:10,12	54:24
51:19 58:16	32:2	alternative	58:22	57:13 67:1	bank 51:13	53:14,15,16	blue 20:11
59:15 64:22	ago 5:10	10:11,14	anyway 60:13	asset-backed	banking 3:6	54:9 55:10	board 16:16
65:13 69:20	agreed 23:12	22:14 71:24	appendix	23:19	banks 51:11	55:11,14,18	16:23 41:11
77:4,14,21	agreement	alternatives	56:7	assets 7:15	bar 20:11,11	56:1,19	43:19 50:19
added 5:16	55:7,9	10:12 25:17	applicable	11:1 20:19	Barclays 11:3	60:17 61:2	56:13 71:14
54:8	ahead 44:13	38:23	48:6	46:24 69:13	17:5,5,12	61:14,23	Board's
adding 27:13	aim 19:24	amend 38:22	applied 56:8	assign 55:10	18:21 19:9	62:3,3,6	50:15
46:7 55:20	Al 67:2	58:15	apply 48:9	Assistant	19:14,15,17	69:23 72:2	bold 13:23
55:21 70:15	Alan 2:5 31:8	amended	49:2 81:16	2:15	19:21 53:18	benchmark...	16:10 63:4
addition 15:1	Alex 2:12 9:5	27:2 37:19	appreciate	ASSOCIA...	55:1	25:24 53:7	bond 11:11
15:7 23:14	30:3 35:19	38:16 52:23	58:1,5	1:20	Barksdale	benchmarks	12:4 17:6
24:10 25:17	62:8 66:22	amending	appreciation	assume 26:19	18:4,6	13:16 53:23	17:17 19:23
					base 40:1		

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 2

bonds 11:18 12:2 17:12 23:17 25:5 27:23 28:3 51:23,23 bonus 78:13 80:4 bonuses 75:14 bottom 7:21 12:16 20:10 69:21 bought 54:24 55:1 Brexit 11:8 31:6 35:10 35:24 36:3 36:8 37:2 46:14,19 briefly 8:16 50:12 bring 41:16 bringing 40:14 broad 24:19 53:13 brought 22:19 build 60:15 building 33:15 52:7 bumping 37:10,16 business 3:20 41:6 42:9 75:16,17 businesses 66:17 Butkovitz 2:5 31:4,18 32:6 33:5 33:14 34:5 34:15 35:12 35:21 36:10 68:3 72:11 75:9	12:23 13:4 15:11 17:13 18:2 60:7 call 3:16 17:15 21:4 cancel 66:23 67:4,8 candidates 66:23 67:1 cap 7:24,24 8:1,5,10,13 8:14,15 13:24 15:21 15:23 20:13 20:14,15,16 20:20 29:4 29:4,7,9 30:11,17,19 33:19 39:8 39:20 40:11 40:12 42:19 43:16 45:3 45:4,5,5,7 45:12 53:12 53:13,14 59:5,10,18 63:2,2 64:5 64:7,9 65:14 78:23 79:3 cap/small 39:8 capital 22:15 35:17 65:23 66:3 73:24 capitalization 40:5 caps 30:8,13 30:23,24 31:1 39:6 car 23:18 card 23:18 case 73:3 cash 37:7,9 37:12 cause 1:13 38:10 causes 9:9 causing 38:13 Center 1:15 certain 28:10 48:14 61:4 certainly	24:21 34:24 48:20 certification 81:15 certify 81:3 certifying 81:19 cetera 55:21 Chairman 2:4 3:5,13 3:14 4:1,3,6 4:8 5:6 6:1 6:4 21:22 22:1 26:8 26:11,14 29:14 30:8 37:24 58:2 59:2,5 67:12,15,21 67:24 68:4 68:9,10,14 71:17,21 72:7,12,16 73:15,19 74:20 75:5 75:8,10 80:8 challenge 28:1 change 4:18 4:23,24 5:3 28:23 29:1 49:22 53:8 53:10 71:8 77:6,16 changed 21:14 40:16 49:2 52:21 53:10,12 56:3 76:12 changes 5:12 26:6 49:21 50:7,16 58:5,12 65:17 77:3 changing 29:19 53:5 56:11 characteris... 49:16 charge 44:2 charges 74:17 charging	45:23 72:3 74:13 chart 20:11 chasing 40:9 cheaper 71:24 Chris 18:18 42:2 77:7 79:24 Christopher 2:10 CIO 2:10 circle 18:4,7 79:20 City 1:1 2:14 2:15 32:9 39:18 clarify 46:5 clarity 36:4 class 23:22 24:10 28:7 32:1 44:23 45:1 46:7 53:24 57:13 76:13 classes 20:19 23:7 26:23 clearly 65:1 client 31:24 40:1 69:7 clients 39:14 39:15,19,23 close 6:20 7:1 13:6,7 15:6 61:1 63:14 70:2 74:19 closely 28:9 29:23 closer 70:13 codes 31:6 codified 54:5 54:9 55:6,6 57:20 Coleman 2:15 50:13 column 7:12 7:22 8:7,8 8:22 14:5,7 14:11 15:2 15:22 16:22 21:10,11 combination 19:13	combine 13:23 combined 18:9,10 19:8,9,13 49:6 combining 39:8 come 15:18 24:20 40:19 42:18 43:19 59:12 70:4 77:22 comfortable 44:10 73:7 73:10 coming 3:2 3:17 6:10 6:13 9:13 22:24 commencing 1:16 commercial 3:6 26:16 51:12,21 Commission 1:2,11 2:3 3:10 4:17 23:12 43:20 77:2 80:14 commission... 58:3 73:7 committed 37:1 committee 41:24 commodities 10:8,12 commodity 10:22 communicate 21:16 62:4 62:16 communica... 56:2 community 46:23 comp 78:18 79:5 company 48:18 79:14 79:15 compare 7:19	compared 72:4 compensati... 78:17 79:11 79:23 compliant 50:21 component 53:16,19 composite 18:22 conceivably 51:14 concentrate 14:4 concentrated 48:14,19,22 49:11,12 54:7 concentrati... 49:13 62:6 62:7 concepts 58:19 concerns 31:5 concur 31:5 condition 44:9 conditions 28:20,20 30:19 32:23 40:23 41:7 68:13 71:10 Conference 1:15 confidence 32:15 conjunction 66:10 conservative 58:10 consistent 21:12 50:17 consultant 56:4 consultation 4:17 43:21 24:15 51:21 consulting 22:20 contained 81:5 continue 5:20 9:3,11	37:15 59:21 continues 11:3,7,24 contract 42:4 43:18 56:20 56:22 contracting 43:14 contrast 7:19 control 81:18 Controller 2:5,13 Controller's 75:13 conundrum 27:17 conversation 33:9 59:16 62:22 conversations 37:7 convertible 51:22 conviction 48:22 copies 34:13 copy 27:1 core 9:4,12 24:19 27:1 27:23 28:3 44:4 53:19 58:18 59:8 59:24 60:1 60:12,14,16 61:8 62:5 62:14,20 63:4 64:5 64:13,16,19 64:22 65:8 65:11,13 66:18,24 67:3,16,20 67:23 68:12 corporate 18:19 23:16 23:16 24:7 24:15 51:21 corporation 49:8 correct 37:23 42:13 54:14 65:23 79:24 81:8	correlation 10:21 correspond 53:14 cost 77:14 Council 76:12 77:6 77:13 countries 24:8 35:14 couple 7:17 73:8,22 76:6 course 76:1 Court 1:13 1:18,21 81:12 cover 20:4 50:19 58:18 covered 24:2 50:19 60:3 covering 23:3 credit 23:11 23:14,16,17 23:18,20 24:15 25:7 27:5 51:15 51:19,20 crossed 29:2 48:1 52:1 current 21:9 25:22 30:7 31:15 32:5 32:23 34:23 35:5 37:13 47:9 61:20 61:22 70:8 74:24 currently 18:17,17 19:2 22:17 23:11,20 25:2 26:24 35:6 38:23 40:4 50:10 51:5,16 66:16 custodian 56:5 customizati... 69:6
C C 2:1 43:15 52:6 81:1,1 calculations 77:5 calendar 7:14 8:2 11:6,19							D dangerous

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 3

32:13 data 60:6 65:8 69:16 date 1:16 7:3 10:4 13:10 25:17 day 19:21 27:19 36:8 46:10,21 DE 1:24 debate 52:12 debt 18:20 23:18 24:4 24:7,8 25:6 27:5 51:9 55:21 decent 70:11 decide 41:5 decided 67:3 decision 36:3 38:4,17 44:23 45:1 61:17 63:12 64:17 decline 11:7 11:12 default 24:21 deferred 78:18 79:4 79:23 defining 54:14 definitely 50:14 79:22 definition 54:13 55:2 56:7 delay 38:4 delighted 3:18 Deputy 2:13 2:14 designed 23:7 54:2 desire 5:22 detail 58:24 determine 41:23 57:6 61:18 developed 9:16,20,23 10:5 33:23 63:3 70:6	70:16,19 device 36:8 DFA 16:20 70:2 74:1 74:18 dial 68:13,13 dictate 40:23 41:8 dictated 61:22 dictates 31:3 42:5 differences 63:14,15 different 4:18 5:23 13:16 16:8 39:6 43:8 61:3 62:20 63:24 68:12 differential 8:12 differentials 10:4 differently 39:18 DiFusco 2:10 4:13 5:8 6:3 18:8 19:6 38:8 43:7 43:13 50:11 58:21 66:1 66:5,7,21 67:16,19 73:2,22 74:10,15 75:2,18 77:9,21 78:14 79:1 79:3,7,17 79:19 80:2 digest 38:1 Dimensional 45:20 46:1 direct 10:18 22:4 59:7 60:18 81:18 direction 31:16 39:10 56:13 directional 22:21 Director 2:9	discernible 60:8 discretion 31:23 32:4 36:15 39:15 46:17 50:15 discretionary 46:24 discuss 56:17 discussed 24:24 25:14 53:17 discussion 20:5 22:8 53:8 discussions 58:22 59:1 71:6 disparity 60:4,6 dispersion 8:21 9:8 dissimilar 43:9 diversificati... 23:2,6,8 48:3,3 49:2 51:1 52:19 diversify 19:24 41:8 diversifying 23:23 divided 63:1 division 23:6 document 6:17,18 22:7,11 25:11,13 26:4 28:14 30:7 35:4 39:1 46:3,3 47:15 54:2 54:5 56:7,9 documents 38:15 doing 13:13 17:20 39:5 40:17 41:2 46:23 50:18 dollar 40:21 42:5,9 51:8 dollars 41:5 42:2 43:16	73:9 74:2 74:15 76:3 domestic 7:4 7:10,12,18 7:21,24 8:5 8:10,13,14 8:17 12:2 13:16,17 19:23 21:1 29:4 30:21 34:6 40:2 47:12 51:11 51:23 62:20 dominated 51:8 Donn 2:4 3:5 3:5,11,12 28:12 67:2 73:24 Donn's 7:5 22:9 Dooms 36:8 downside 63:16 draft 22:5 66:11,12 driven 10:7 14:14,16 16:1 60:7 drives 20:9 drop 11:16 dropped 5:17 drops 27:3 31:5 due 57:11 duration 33:12 52:20 52:20,24 duties 50:17 <hr/> E E 2:1,1 81:1 Eagle 16:4 earlier 20:12 20:17 44:6 53:17 60:4 earnings 65:2 65:5 easier 44:12 easy 61:6 economic 28:20 economies 33:22,24	37:2 economy 11:8 11:9 33:18 edges 46:14 73:4 edification 7:5 effect 75:14 77:16 78:8 78:12 80:5 effective 69:1 69:24 either 5:16 50:4 51:5 60:11 74:1 election 35:15 electronically 5:14 elements 79:23 eliminated 52:18 Ellen 2:14 78:14 eluded 44:5 EM 10:1,1,21 emergence 33:17 emerging 10:2,6,7,19 10:22 16:19 18:19 23:23 24:2,3,5 25:5 27:5 33:22,23 34:11 41:20 42:1,7 45:17,18,21 46:1 55:21 70:8,10,12 70:20,23 employee 76:4 ended 12:11 endorse 33:6 energy 14:21 14:23 61:12 61:21 enhance 23:7 ensuing 36:1 ensure 50:20 entering 32:12	entirely 45:19 environment 24:17 31:3 37:14 envision 45:11 equation 7:16 17:1 18:15 equities 7:7,8 31:6 33:7 36:9 equity 7:4,10 7:15,18,18 7:21,24 8:17 9:16 10:3,20 11:24 12:2 13:13,17,17 16:24 17:1 20:22,24 21:1,2,19 24:2 25:20 28:24 29:4 29:5,8,11 29:22 30:21 31:24 32:5 33:1 35:7 37:5,9 38:21 40:2 41:20 42:1 46:15 47:12 47:13 49:8 52:8 53:16 59:8 62:21 63:3 68:15 69:14 71:3 71:13,15 equity/35 7:6 especially 14:20 72:4 estate 25:18 et 55:21 EU 9:18 European 31:20 35:13 event 43:17 45:18 66:24 eventually 25:19 evidence 31:22 33:8 81:4 exact 14:7	40:6 79:9 example 21:19 23:19 41:19 45:16 46:18 63:7 exceed 53:9 Excellent 59:2 excess 74:9 exclude 68:22 exclusionary 47:15 50:24 exclusions 69:8 Executive 2:9 executives 79:13 exhibit 61:23 63:22 exhibits 49:17 existing 22:14 50:7,8 71:18 73:6 73:23 exits 36:1 expect 33:20 expectation 13:1 expensive 74:11 explanations 63:10 explicitly 47:21 extent 73:9 77:24 extreme 33:24 34:2 extremes 45:11 46:5 46:9 eye 15:6 <hr/> F F 81:1 face 27:17 factor 7:7 14:14 factored 34:17 factors 14:15 fair 37:18 fairly 5:18	8:21 12:3 12:19 36:23 39:24 fall 47:20 familiar 40:13 78:15 79:15 familiarity 79:20 far 15:2 50:20 77:22 Fargo 3:7 favor 4:3 40:11 68:7 69:14 72:14 75:6,10 fee 69:1,3 70:4 feel 25:24 53:4,24 fees 43:2,23 43:24 45:23 59:16 69:24 70:18 72:6 felt 45:7 fiduciary 50:17 final 24:9 53:5 finalized 23:21 finally 65:19 financial 16:6 62:13 financials 61:11 62:9 62:12,14 find 47:14 fine 7:9 17:14 17:20 45:20 67:11 finish 38:8 fired 45:9 firms 41:21 first 3:20 4:14 6:18 7:2,13 8:2 9:15 11:5,19 12:23 13:23 15:11 16:16 17:13 18:1 18:5 51:4 61:23 77:23
---	---	--	---	---	---	--	---

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 4

fiscal 12:21	formally	31:1 46:16	going 5:5 6:8	19:24 20:23	28:17 31:13	helped 20:15	implemented
five 27:24	73:10	58:16	9:2 12:7	21:3 36:3	51:1	20:16,16	25:3
28:2 32:9	format 5:23	future 4:22	13:8 15:18	40:1,24	guys 3:14	helpful 8:15	implies 24:11
32:11 35:14	forward 13:8	25:14,14	22:2 25:10	45:16,21	49:20 58:7	75:22,23	important
39:16	41:2 72:8	52:10	26:18 28:1	54:22 77:20	75:23 77:18	high 6:21	31:10 54:4
fixed 7:6	four 14:5	<hr/> G <hr/>	29:19 31:9	government	<hr/> H <hr/>	13:12 24:11	56:11 69:9
10:24 17:2	16:11	gap 13:23	31:19 32:7	3:7 4:19	half 7:11 9:1	24:18 25:8	impressive
17:3 18:9	framework	Garcia 17:9	32:13,15,24	47:20	15:10,11	26:6,18	71:20
18:14,19	25:13,22	17:19,21	38:11 40:19	grade 23:11	16:11,21	27:7,13	include 23:17
19:3,8,13	28:22 35:4	gather 49:15	40:20,22	23:14,15	18:11 21:5	46:18 48:22	24:7 25:17
21:3 23:2,6	35:8 46:2	general 1:18	41:1,3,4,6	24:12,14,15	27:24 28:2	50:22 55:20	27:3 52:11
23:24 24:10	47:5,9 49:1	38:15 50:13	41:11,12,14	25:6 26:13	28:4 74:13	79:8,9	53:3
24:20 27:2	53:12,13	generally	41:18,21,22	26:17 27:5	halfway 13:4	higher 24:13	included
28:16,24	56:12 59:22	79:8	41:22,23	27:6,6,8,9	51:24	35:22 65:4	24:22 50:7
41:2,3	frankly 47:16	generate 13:2	42:11,17,24	47:23 51:9	hallmark	65:4,6	54:1
47:13 51:10	63:14 69:21	generated	45:11,24	51:14 52:1	69:6	highlighted	includes 27:4
51:23 52:24	Fred 14:3,10	16:14,23	46:6,9,9,9	Grant 54:11	Hamilton	28:21	30:23
53:18,20	15:8 62:17	generating	46:22,24	granular 40:3	17:19	hire 19:19	including
55:12	62:19	13:14,15	51:18 57:23	grate 51:15	12:13 36:11	40:15 42:8	66:15
flag 26:15	free 28:5	28:3	64:10 65:5	gravitate	hand 4:9	42:11 43:10	inclusionary
54:21	freer 36:11	getting 13:6,7	68:11 69:13	31:16	36:14,16	44:6 55:14	47:10 50:23
flash 19:7,12	36:13,16	41:5 43:1,1	69:24 72:5	greater 35:22	handle 9:5	62:10,18	income 7:6
flat 16:19	FRIENDS	53:7 60:12	74:21 76:5	48:5	handled	hired 15:3,5	10:24 17:2
flavor 54:8	1:21	72:6	76:21 77:16	group 64:4	76:14	42:3 43:1,3	17:3 18:9
flexibility	full 1:21 5:14	give 27:12	78:11,21,22	76:16	handout 59:9	55:8	18:15,19
35:22 36:6	fully 12:1	36:16,20	Goldsmith	groups 60:2	73:24	hiring 40:18	19:3,8,13
flight 11:9,10	31:2 38:5	40:5,6,21	2:12 6:8	64:4	hands 57:14	42:7 43:14	21:3 23:2,6
flip 6:23 17:2	38:19 46:2	42:1,8,12	19:2 20:2	growing	happen 76:14	71:15	23:24 24:10
28:13	56:11 58:5	69:13 73:8	22:4 26:10	34:19	76:21,22	historical	24:20 27:2
flipside 61:10	67:6 81:5	74:2 76:7,9	26:13,22	grown 12:17	happens	11:16 50:3	28:16,24
Floating 5:1	fund 1:2,11	61:21	28:13 29:21	growth 8:18	32:11	hit 6:16	41:2,4
floor 1:15	3:3,10,12	given 61:5,20	30:4,11	8:20,20,23	happy 4:22	hold 39:4	47:13 51:10
3:13 75:5	11:2 23:12	61:21	33:10,16	9:1,9 33:17	27:11 59:1	44:18 48:15	51:23 52:24
flow 50:23	39:11,17	gives 35:21	34:8,21	33:17,21	hard 40:5,6	51:17	53:18,20
flows 35:17	42:21 43:10	36:6,11,13	35:23 36:13	34:1,3	Harding	holdings 49:5	55:13 78:20
fluctuating	43:11 48:18	36:16,20	36:18 37:4	42:19 44:5	16:18 70:7	49:15	increase 21:8
76:2	59:24 69:20	global 11:8	38:14 39:13	59:5,10,22	74:1,18	holds 48:20	42:1 70:17
fluid 25:13	71:12,18	29:9,24	43:4 44:3	60:3,5,20	Haverford	64:10 65:16	increased
28:18,19	77:7 80:14	33:18,19	44:22 45:16	61:3,7,10	66:20	Hook 68:23	36:6
54:18	fundamental	37:2	47:3 50:2	61:19,20	headline	hopping	increases
focus 31:7	61:17,17	go 6:20 8:6,8	50:22 54:16	62:2,3,10	54:19	40:10	29:5
51:2	63:10	9:4 10:16	55:5 56:21	62:18 63:5	healthcare	huge 36:5	increasing
folks 5:16	fundament...	13:11 21:21	57:9,19	63:7,10	15:13 61:9	62:9	29:11 33:2
78:1 80:5	64:16	22:6 30:8	58:15 59:7	64:1,7 65:1	61:21	<hr/> I <hr/>	incremental
following	fundament...	32:21 35:5	62:23 65:24	65:3,5,10	healthy 14:13	idea 27:12	13:14 16:14
29:13 48:2	44:7 57:12	35:8 42:3	66:10 67:11	guess 4:10	hear 4:6	34:7	16:23
57:4 62:23	fundament...	43:13,18	68:11,16	19:11 47:10	26:11	impact 5:5	index 6:24
63:1,21	44:14 45:24	45:8 52:13	72:17,24	guessing	hedge 25:20	impacting	14:1 49:7
foregoing	60:8	60:1 67:3	73:17	32:11	heightened	35:1,1	49:12 59:20
81:7,15	funds 5:2	71:7 77:3	good 8:3	guideline	46:19	implement	59:23 61:5
foreign 25:4	14:1 25:20	goal 37:21	16:15,23	51:19	held 1:12,14	69:12	61:7,8 63:2
forget 28:8	39:9 49:12	44:6 53:9	17:9 18:16	guidelines	16:6 28:10	implementa...	63:22 68:15
formal 35:1	further 25:20	goes 29:5	18:21 19:23	22:6 25:2	33:9	71:9 72:18	68:17,19,22
		57:4 66:19					

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 5

69:20 70:13 70:15,18 71:12,16 Indexing 71:23 indicate 45:24 indicated 63:9 indicative 65:9 indices 54:24 55:1 62:24 individual 48:9 53:1 55:24 individually 55:14 industry 60:21 information 5:19,23 53:23 75:13 75:21 information... 4:10,13 infrastruct... 25:18 initial 73:3,5 input 58:3 insight 76:9 instances 64:14 interest 12:5 interesting 63:17 interestingly 10:1 interfering 35:17 interim 58:22 59:1 intermediate 17:10,10,11 17:15,16,23 19:4,5 34:24 36:5 36:7 internally 44:12 international 9:15,16,19 9:23 10:3	10:20 13:13 16:9,9,24 20:22,24 21:2,18 29:5,8,11 29:16,22,24 31:6,24 32:4 33:1,7 34:3,12,13 34:16,18 35:7 36:9 37:5,9,13 46:15 47:13 53:15,16 63:3,21 64:11 65:17 68:15 69:14 70:13 71:3 71:12,15 74:8 internation... 32:3,14 Interns 2:16 interview 15:19 40:20 41:21 59:13 interviews 38:11 introduce 3:5 invalidate 67:8 invest 28:7 41:15 77:17 invested 10:5 20:12 48:7 48:18 investing 9:12 investment 6:7 14:15 20:21 22:3 22:6 23:11 23:14,15 24:12,14,15 25:1,6 26:1 26:3,12,13 26:17 27:4 27:6,6,7,9 28:8 31:12 38:14,18 41:24 46:23 50:8 51:9 51:14,15	52:1 54:1 55:7,9 56:16,20 60:22 61:18 71:4 investments 11:10,11 25:8,19,21 39:7 47:7 53:2,3 inviting 66:18 IPS 20:5 50:16 54:13 54:14 55:2 55:2 IPX 18:13 Ireland 68:24 IRS 78:7,14 78:16 79:3 79:16 issue 51:5 62:20 67:7 67:16,20,22 70:5 77:11 issued 51:5 59:11 64:20 66:13 68:17 issues 15:13 16:5 item 4:10 5:9 6:6 9:13 20:8 59:3 items 4:11,14 5:12 J job 68:10 Johnson 2:6 4:2 37:18 58:8,20 67:18 68:2 72:10 74:24 75:4,7 joining 3:18 July 1:4,8 5:17 6:16 12:14,16 21:8,17 80:14 jump 6:12 June 5:15 6:11,17 9:18,23 11:13,15	12:11 21:12 69:17 K keep 8:1 14:11 15:6 17:4,12,16 45:5,22 keeping 13:18 74:24 kept 20:24 key 44:24 45:1 kind 11:22,23 12:1 13:7 13:18,20 17:21 18:5 21:15 22:10 26:5 27:11 32:10 40:10 40:18 44:5 54:9,15 57:2 62:15 64:13 73:4 76:20 King 1:13 81:11 know 5:2,20 5:24 7:5 10:16 13:9 15:8,17,23 17:3 18:4 18:18 19:10 20:9,18 22:9,18,19 23:16 24:16 24:21 26:17 27:23 28:15 32:8,10 33:21 36:2 37:6,15 39:11,18 44:13 49:24 50:5 52:22 53:3 55:4 58:12,17 63:6,16,24 64:12,24 65:7 69:5,8 69:11,14 70:1 71:5 72:2 74:1,2 77:23 78:4 78:17 79:24	known 8:19 8:20 Kors 14:19 L labeled 22:5 lag 15:22 lags 10:17 LANE 1:21 language 50:9 56:4 56:17 57:10 57:21 large 8:1,5,13 8:15 13:23 13:24 20:12 20:14,15 29:4 30:23 39:8 40:11 40:12 43:10 45:3,5,5,7 45:12 59:5 59:10,18 63:2,20 64:4,7,9,11 65:14 late 10:23 Law 79:20 Lazard 17:8 17:19,20 leads 11:17 leave 9:18 11:22 28:8 led 11:12 legal 49:21 50:4,6 54:12 77:11 legally 40:15 legislation 77:18,24 legislative 35:2 lending 26:16 let's 13:3 21:4 42:1 59:14 65:12,24 letter 51:24 52:6 77:2 78:1,19 level 6:21 13:12 26:6 27:20 49:9 49:19 50:14 50:24 51:1	51:18 52:22 55:16 57:21 57:22,24 62:21 70:24 78:20 leverage 53:3 liabilities 33:12 light 4:23 limit 48:16 49:19 78:16 limited 48:15 52:6 limits 78:7 line 13:20 16:10 17:21 18:5 22:11 26:4 63:4 list 5:11,15 47:16,17,18 57:17,20 64:23 65:22 66:17 80:5 listed 47:12 47:19 little 6:22 13:22 15:16 22:7 23:3 32:8 44:4 47:17 54:8 54:12,15 58:4,9,10 69:18 71:8 live 61:20 loan 23:18 local 65:21,23 66:3,5,15 location 80:12 Loevner 70:7 Logan 18:4,7 logic 38:6 long 24:4 31:7,12,14 31:20 32:16 33:2,11,24 34:2,6 35:24 38:18 50:16 54:3 57:7 70:24 80:6 longer 56:9 look 3:8 7:4,9	7:12,21 8:11,17,21 8:23,23 10:1,10,11 10:18 13:10 14:9,10,10 15:21 16:9 16:10 17:3 17:8,19,24 20:9,10 21:9 22:17 30:16 32:18 36:2 41:12 58:12 60:15 62:8 64:12 65:8 68:21 74:6 76:2 77:15,19 looking 9:7 10:13,20 12:15 14:6 16:22 26:15 30:9 32:1 52:6,10 55:17 61:14 61:15 looks 6:13,15 80:9 loop 7:1 74:19 lot 5:3 26:4 27:10 35:15 38:1 48:21 50:6 53:22 56:8,11 65:18 69:13 72:3,6 75:24 love 56:23 low 24:16 32:17,19,21 35:8 79:10 lower 24:23 35:5 65:6 69:24 70:18 70:19 lowers 35:20 70:22 lowest 11:14 69:3 lump 6:2 lunch 28:6 M	M 1:13 81:11 Macy's 14:18 main 21:14 23:1,10 39:17 53:5 62:15 77:7 majority 39:14 making 54:18 75:20 Malvern 66:8 manage 17:11 19:18 39:20 62:1 62:3,5,11 managed 18:11,11 19:10 51:15 management 2:11,12 28:18 56:1 56:20 59:16 69:22 70:22 manager 3:7 15:3,6 16:20 17:18 38:11 40:23 41:20 42:2 42:3,7,22 43:15,17 44:1,11,16 44:21 45:2 45:5,6,8,20 48:9,10,19 48:23 50:24 51:17,19 54:3,7,7 55:7,8,9,15 55:19,23 56:24 57:2 57:5,11,14 57:24 59:23 59:23 60:2 60:22 63:23 64:9,16 69:12 71:16 71:16,18,24 72:5,22 73:6 74:13 managers 13:13,17,24 14:3,6 15:9 16:15,24
--	---	---	--	--	---	---	--

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 6

17:14 18:3	41:7,20	81:17	43:15	MSE 9:20	39:15	59:1	57:16 63:9
19:19 26:1	42:1,5,15	meant 31:8	momentum	10:21	non-U.S 51:9	offset 49:11	outperforms
27:19 40:12	44:9,14	31:11,11	34:16	Municipal	51:10	60:12	24:19
40:14,15,18	45:21 48:7	measure 19:8	Mondrain	5:19	north 12:24	offsetting	outside 20:1
40:19 41:12	52:6 60:10	median 64:3	74:1		28:5	13:18	23:8
42:24 43:10	61:20,22	64:5,7,8	Mondrian	N	Northern	oil 10:8,17	outstanding
44:7,7,9	62:14 68:12	meet 36:19	74:17	N 2:1 81:1	14:2 68:24	14:22	18:18
46:7 48:14	70:10	55:11	money 4:16	name 24:11	Notary 1:14	okay 6:4 41:8	over-restrict
49:3,5,11	markets 6:21	meeting 1:4	5:1,4 18:11	49:10 64:24	81:12	43:1,12	26:1
49:12 53:1	6:23 7:1,9	1:11 3:3,16	42:6,12	64:24	note 3:4	49:22 66:7	overall 17:6
55:17 56:18	9:17,20,20	3:21 9:3,6	43:1 44:1	names 48:22	47:21 63:17	67:13 72:7	17:17 18:22
57:21 59:12	9:23 10:2,7	13:7 20:3	44:16,20	nature 61:3	noted 4:17	74:20 75:4	19:15,16,20
59:19 60:15	10:19 11:21	22:9,12	45:4,9 76:1	NAV 5:1	81:4	77:9	29:9 52:22
60:23 61:18	11:23 16:20	23:13 25:15	77:12 78:10	near 20:19	notes 81:6	old 75:17	70:22 75:2
62:1,2,5,11	24:2,5 25:5	27:1 38:13	78:12	36:7	notice 1:12	once 41:5	78:3 79:11
62:12,13,18	27:5 28:11	59:13 78:5	monitor	necessarily	51:22	74:7	overcome
63:23 64:5	33:23 34:4	80:9,10,14	49:17	44:10,22	noticed 53:22	ones 41:16	64:1
64:7,8,16	34:6,11,12	meetings 5:10	monitored	necessitate	notification	ongoing	overly 30:13
64:22 65:3	34:17,18	5:21	28:9 49:14	24:6	76:24	43:23	overpriced
65:9,13,21	42:7 44:8	member 74:8	monitoring	need 5:6 15:6	notify 76:21	open 54:18	12:4
66:14,15	45:17,18	Members 2:3	49:14 70:2	24:6 27:20	November	58:7	overseas 9:17
68:12 69:23	46:1,8	2:16	month 12:19	32:21 43:16	15:3	opinion 18:16	9:20 10:5,6
70:21 72:1	63:12 70:8	memo 4:14	25:15 76:4	44:10 67:15	number	20:1 49:21	35:2
73:20	70:12,20,23	4:19	monthly	72:18,24	40:21 48:15	56:15	overvalued
managing	Matt 42:3	mentioned	76:18	76:8,10	59:3 65:12	opportunity	12:1
18:3 42:6	matter 34:19	1:12 14:21	months 5:21	needed 4:23	79:8,9	3:19 38:5	overview
mandate	81:7	20:12 65:15	7:14 8:2,11	needs 28:9	numbers 9:14	43:11	11:21
17:11 19:3	Matthew 2:9	69:11	9:22 11:6	negative 8:9	74:6	opposed	overweight
Marc 2:11	Mazza 2:9	met 69:4	11:19 12:23	9:1,24	NY 1:24	17:18 62:12	8:5,15
18:8 23:2	3:2 5:1	metrics 65:3	15:11 17:13	10:17 15:10		opposite	14:16 20:13
24:1 39:19	54:11,23	Michael	18:2,6	16:13,13,18	O	49:13	62:13 70:11
44:5 46:12	56:15 57:7	14:19	35:12 36:19	31:21 38:7	O 81:1	optimal 52:15	
60:3 63:8	57:17 65:21	middle 64:14	36:21	Nelson 16:2,2	O'Shaughn...	options 58:13	P
74:4	66:3,6,8,20	million 19:10	morning 3:18	16:4	14:3,9,12	order 3:16,20	P 2:1,1
March 22:20	67:14,22	43:22	mortgage	net 53:10	14:24	original	p.m 80:15
59:13	68:10 71:14	mind 18:10	51:12,20	78:12	objectives	58:11 73:23	PA 1:24
margin 14:13	71:19,23	minimal	motion 3:23	new 3:5 22:18	53:6	originally	pace 31:17
market 4:16	72:21 74:7	27:16	5:7 68:1,2,4	28:16,22	obvious 52:12	59:12	page 6:24 7:1
5:2,4 6:16	74:12,16,23	minimum	72:9,10,12	35:8 37:22	obviously	ought 58:4	9:7,14 12:8
6:24 7:13	75:3,12,20	30:17 35:7	75:5,7	39:11 56:12	4:21 9:18	72:8	12:9,10
10:22 11:24	76:15,18,23	minor 56:4	move 20:7	65:11 75:16	11:17 16:15	outcome	19:20 20:7
12:4,9,14	77:20 78:9	63:14	22:2 29:14	NEWTOWN	21:13 40:13	60:13	20:9,10
14:12 17:7	79:2,12	minority	30:6,9 39:2	1:22	44:6 58:21	outperform	28:14 29:13
17:17 18:20	80:4	66:16	39:4 43:22	Nice 68:10	65:5 71:2,6	19:18 44:8	47:4 48:4
19:22,23	mean 19:6	minus 29:17	47:3 53:14	nimble 36:21	occurred	60:16	49:4 51:7
21:8,15	31:4 41:4	minutes 68:6	65:19 71:10	51:14	46:15	outperform...	51:21,22,24
22:15 23:23	43:7,8	miscounted	72:8	NJ 1:24	occurring	55:13,23	53:6 56:2
24:3 28:19	44:17,19	33:8	moved 3:24	nominal 56:5	33:21,22	63:18	63:2 64:23
29:7,9 30:1	58:14 73:20	missing 5:24	47:14 56:7	non-allowa...	Office 75:13	outperform...	69:10 72:20
30:19 31:15	78:8,23	mix 18:22	moving 29:22	47:7	officers 75:15	16:4 24:3	73:23
31:20 32:23	means 5:24	28:23	39:10 50:23	non-compli...	officially	63:8 64:8	pager 6:15
33:19 40:8	30:14,18	mixed 39:24	50:24 52:17	54:21	66:22 67:4	outperform...	pages 62:23
40:10,23	41:6 78:9	moment	63:21 69:15	non-core 54:8	67:8	13:14 17:22	paid 78:17
				non-discreti...	offline 58:22		paper 51:21

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 7

parenthesis 29:17	14:13,23 15:4,10,15	17:4 38:1 41:14 80:7	62:16 63:19 pointed 62:8	55:19,20,22 positive 7:22	priced 12:5 prices 10:22	5:12 proxy 17:6	quickly 66:13
part 10:6 20:3,5 67:20	16:3,11,13 16:17,20 17:15 18:1	persists 64:10 perspective 13:4 26:16	points 12:20 55:12 58:23 58:24 70:1	7:23 8:12 8:24 10:3 15:5,12,24	primarily 25:4 37:13 primary 23:1	18:21 19:15 19:16,23 public 1:14	quite 14:12 40:3
partially 28:15	19:3,4 20:13 21:1	49:23 75:23 PFM 2:11,12	70:3 71:22 73:8 74:9 74:14,18,18	16:1,11,16 16:18 17:4 32:16	prior 23:1 private 23:18 25:19 38:21	40:13 50:9 79:15 81:12 pull 65:11	R R 2:1,10 81:1
pass 6:8	27:1,4,8,24	4:17,19 27:20 32:23	74:19 pol 20:21	possibility 30:24 35:24	52:7,8 79:14 proactively	66:22 67:18 punctual 3:15	raise 4:9 raised 35:20
passed 6:12 21:6 60:19	28:4,5,5,24 28:24 29:6	33:9 39:17 41:24 42:14	policies 34:19 policy 6:7	possibly 41:13 posture 33:7	problem 33:5 46:12 problems	pure 29:4 65:10 purely 70:19	raises 26:14 27:15
passing 79:19	29:6,18,22 29:23 30:9	43:21 46:8 PFM's 74:5	22:3 25:1 30:15 35:1	potential 22:18 25:11 51:13 54:6	27:11 proceed 33:5 46:12	purpose 22:16 pursuant	rally 10:6 range 30:17
patch 32:12	32:22 33:19 34:1 35:6	5:11,15,16 8:3 15:2,4	35:2 38:14 38:18 50:8 52:4 54:2	potentially 9:18 15:18 31:1 62:18	proceedures 38:13 34:20	pushed 59:13 put 7:17 38:7	raising 37:6,7 rally 10:6
path 37:15	37:5,10,17 48:5,11,17	42:2,6 47:2 62:1 69:8	56:16 57:21 58:11 60:23 71:4	preclude 25:5 25:7 51:3 precluded	38:13 34:20 72:19	45:6 50:1 52:9 56:10 57:17 72:22	range 30:17 32:18,19,22
pattern 60:9	51:8,10,11 51:12 60:23	75:14 77:3 80:6 PGWs 76:14	population 33:17,21 34:1	25:21 49:1 51:4 prefer 57:22	proceedings 81:4 41:1,11	69:18 70:3 ranges 30:16 33:3 37:21	36:23,24 37:3 66:15
pay 43:2 61:1 76:8	61:7,7,9 62:11 64:6	PHILADE... 1:1 Philly 66:7	portfolio 6:22 7:5,8 8:4,14	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	37:22 ranks 4:24 Rasheia 2:6	37:3 66:15 69:18 70:3
payments 23:19 37:8	69:15,18 70:2,7,11	pick 63:24 piece 25:6	12:8,19,24 13:20 15:2 15:7 22:19	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	69:18 70:3 ranges 30:16
76:19 78:2	70:14 71:4 71:7 72:3	pieces 58:24 place 14:16	13:20 15:2 15:7 22:19 22:22,23	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	33:3 37:21
payout 79:6	73:12,18,19 74:13,22	piece 25:6 pieces 58:24	22:22,23 23:15 24:22 26:2 27:10	25:7 51:3 preclude 25:5 25:21 49:1	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
payouts 76:17 78:13	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	51:4 prefer 57:22 61:17 64:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
80:4	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
PE 65:4	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
peak 12:12	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
12:16	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
peer 64:4,4	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
Penn 1:15	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
Pennsylvania 1:17,22	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
pension 6:6	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
9:10 11:2	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
12:9 22:3	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
32:5 39:5,9	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
47:2 76:3	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
78:11 79:6	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
pensions 75:15	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
people 33:9	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
35:15	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
percent 7:11	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
7:13,15,23	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
8:9,10,12	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
9:21,21,24	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
10:3,4,12	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
10:14,15,17	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
10:21 11:1	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
11:4,5,13	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
11:14,20	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
12:22,24	74:13,22 percentage	place 14:16 17:23 20:23	27:14 28:18 30:14,20 31:2,9 32:1	49:16 present 1:14 2:8,16 20:3	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22
13:3 14:6	71:7 72:3 73:12,18,19	pieces 58:24 place 14:16	22:22,23 23:15 24:22 26:2 27:10	61:17 64:14 prepare 49:16 present 1:14	76:11 80:2 puts 54:15 putting 40:18	rate 61:19 76:6 rated 23:15	37:22

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 8

reason 31:22 32:14 54:17	reducing 46:7 reevaluating 18:17	request 5:10 require 57:10 required 52:21 57:1	return 13:2 16:14,17,23 24:22 26:18 27:13 28:3 72:6 76:8	69:15 70:11 71:11 73:22 74:16 76:10 80:8	8:19,22,23 8:24 9:1 53:15 59:20 60:20,20 62:2 65:7	68:5,16 72:11 75:8 75:9 seconded 72:13 Secondly 76:11	12:7 select 41:13 41:19,22 selected 41:17 selection 15:13 16:5
reasonable 58:8 reasons 4:20 52:3 rebalance 72:21 75:3 rebalancing 69:19 72:20 73:4 74:5 rebound 10:7 rebounded 14:22 recall 43:11 receive 42:5 received 5:9 64:20 76:24 77:12 receiving 5:11 recognize 40:14 65:22 recommend 32:24 38:19 65:17 69:19 71:3 73:17 recommend... 4:20 52:13 56:21 65:10 67:7,9 69:2 recommend... 36:17,21 37:11 38:6 46:22 59:6 recommend... 39:14 60:1 66:21 67:6 recommend... 26:7 32:24 43:21 64:19 73:16 red 22:11 26:4,15 red-line 28:14 reduce 44:11 44:18 45:22 69:22 reduced 46:15,16,18 73:21 reduces 70:21	reflect 29:23 reflected 34:14 reform 4:16 reforms 5:4 regarding 5:10 regardless 37:1,2 44:8 reissue 65:11 related 28:15 relation 10:18 relationship 3:7 44:21 relative 12:2 12:3 13:15 13:19 15:23 17:23 62:14 relatively 13:11 26:21 relevant 49:7 remain 19:21 remains 21:19 28:23 remind 18:13 remove 45:18 removed 30:12 52:16 removing 31:2 replace 53:4 62:19 replicate 68:22 report 19:7 24:1,18 77:23 78:3 reporter 1:13 81:12,19 REPORTI... 1:21 represents 53:19 reproduction 81:17	requirements 25:24 49:2 52:19 56:23 requires 35:2 48:4 research 50:14 resolution 72:8 respective 64:4 respondents 64:23 65:10 68:19 69:3 response 59:17 responses 65:12 67:9 responsibili... 56:3 responsible 76:19 rest 52:18 restrict 68:23 restriction 25:4 26:3 restrictions 48:8,13 58:17 68:24 restrictive 36:23 52:18 restricts 30:14 results 38:22 retail 14:16 retain 62:19 retention 78:2 retirees 5:11 5:15 6:1 76:13 retirement 5:19 78:18 78:21,24 79:7 retirements 76:5	review 22:13 22:18 23:4 25:10 reviewed 64:21 reviewing 67:1 revise 22:22 revisit 18:14 22:8 revisiting 25:1 rework 25:12 reworked 26:2 RFP 15:17 23:20,22 51:16 59:5 59:10 62:21 64:20 65:11 66:12,19,23 67:7,17,22 68:17 RFPs 18:18 18:24 38:11 41:3 51:4 65:18 RhumbLine 14:2 69:2 71:15,18 72:23 74:23 right 3:14 6:5 6:12 11:22 12:5 15:2 20:19 21:4 26:18,24 28:13 30:2 30:10 31:21 33:19,22 35:6,13,22 36:18 37:4 50:23 51:2 54:16 55:3 59:3 62:1 64:13 69:13	71:11 73:22 74:16 76:10 80:8 rigid 54:3,12 rise 24:4 risk 24:20 26:19 27:14 27:19,20 36:5 37:13 54:19 69:22 69:22 70:22 risks 24:21 risky 48:20 road 9:11 25:20 52:5 52:14 role 22:20 59:11 68:18 rolled 49:4 Room 1:15 roughly 7:6 11:1 27:8 round 62:17 route 67:4 row 7:10 9:15 10:2,11,13 12:10,16 13:23 21:21 21:21 28:21 RPR 1:13 81:11 Rubin 2:13 3:24 4:7 39:4 40:9 41:10 42:11 42:14,17,21 42:24 43:5 43:12 44:15 45:3,13 46:12 49:20 75:16,21 76:16,20 77:1,10 78:6,23 79:6,14 rule 79:16 rules 1:18 4:16 run 35:24 Russell 7:19 7:20,23 8:9 8:17,18,18	S S 2:1 S&P 7:9,19 8:12 59:19 60:19 61:8 62:8 65:7 safer 11:10 11:11 47:21 Sandy 68:23 save 71:21 72:5 savings 70:4 74:16 saw 11:18 60:3,22 saying 4:4 32:21 34:18 39:7 43:5,6 57:3,7 scheduled 77:22 80:10 Scott 2:4 3:5 3:14 4:1,3,6 4:8 5:6 6:1 6:4 21:22 22:1 26:8 26:11,14 29:14 30:8 37:24 58:2 59:2,5 67:12,15,21 67:24 68:4 68:9,14 71:17,21 72:7,12,16 73:15,19 74:20 75:5 75:8,10 80:8 screen 66:14 SEC 4:16,23 second 4:1,2 5:9 7:2,7,11 10:9 11:3,4 13:12 14:20 14:22 15:16 15:20 23:22 59:14 68:3	section 10:11 10:14 21:23 48:2,6 53:2 56:3 69:10 sections 63:1 sector 16:6 48:7,12,16 60:24 61:5 61:10,12 62:6 sectors 60:21 61:2,4,11 61:15,16 securities 24:11,12 25:6 27:9 29:8,24 47:11 48:15 48:17 51:13 52:7,8 68:23 security 47:19 51:23 see 5:22,23 8:4 11:24 15:4 16:15 24:2,18 28:22 29:2 29:16,17,18 30:22 38:12 40:7,11 42:18 44:14 45:15 47:1 48:2 49:4 51:7,22 52:17,23 61:6,11 63:6,13 64:2,6,23 65:5,24 69:21 70:5 74:6 seen 57:19 sees 12:15 46:8 segue 6:21	send 27:11,12 77:2,17 sense 19:1 22:8 26:7 29:12 33:3 42:10 43:20 47:2 62:5 62:15 65:19 73:6,13 sent 5:13 9:19 66:14 69:17 77:3 78:1 September 38:10 71:20 77:23 80:11 serve 3:19 service 1:21 3:10 40:1 69:7 SERVING 1:24 set 4:15 22:10 25:16 47:3 55:13 62:21 77:8 sets 78:16 setting 56:13 seven 59:3 shape 52:16 sheet 6:14 21:6 shift 29:3 34:10 70:16 shifting 30:21 shock 9:19 shop 71:20 short 34:9 35:3 38:1 shorting 34:6 34:9 shortly 60:6 show 60:6 showing 19:7 shows 60:6 62:24 shrink 33:20

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 9

side 7:15 9:15 15:21 17:1 17:2 18:15 71:8	30:19,23 31:1 41:19 42:18 43:16 45:4 62:10 63:2,20 64:11 65:16	standpoint 13:2 47:21 49:14 54:12 71:9	strictly 40:2 struck 52:10 structure 47:10 76:13	tabling 38:12 tactical 35:3 36:17,22 take 6:2	term 24:4 25:16 26:12 31:7,12,14 31:21 32:16	33:11,18,18 33:24 34:8 34:9,14,22 35:3,9,18	41:15,24 43:17 48:8 54:24 57:6 58:1,4 60:9
sideline 45:6 sign 55:8,10 significant 16:13,14 60:5 63:15 63:17 74:15	sneak 12:12 12:16 sold 8:10 9:17 14:18,19,19 solicit 65:12 Solicitor 2:14 2:15	stapled 6:17 start 5:11 60:14 starting 25:9 stat 23:23 State 1:17 stated 38:2 statement 20:21 56:16	structures 22:15 28:19 stuck 52:3 stuff 56:5 57:3 style 45:7 60:2	12:12 22:22 27:18,20 39:20 41:12 41:19 44:16 44:20 45:9 58:4 62:19 67:14 73:8 73:24 74:2 77:18	33:2,11 34:2,6 35:3 36:5,7 38:18 54:3 57:8 71:1 terminate 57:2,11 termination 56:17,23 57:10	36:4,7 37:4 37:18 39:2 39:23,23,24 40:7 42:21 44:6 46:6 47:13,16,20 50:3,4,13 50:15 58:8 59:2,12,24 60:13 61:11	times 11:16 30:18 48:5 48:11 69:4 72:1 timing 46:12 titled 59:8 today 37:20 58:18 Tom's 78:19 tomorrow 31:10
significantly 12:4 24:19 63:7,9 64:8 signify 4:4 silly 54:9 similar 5:18 52:3 77:6 similarly 29:13 56:6 61:9	solid 12:19 soon 51:6 sorry 6:17 19:22 36:18 sort 22:6 39:10 source 37:8 37:12 43:22 sovereign 24:7 space 15:13 15:14 45:21 59:18 62:9 62:10 65:14 72:4	statements 38:15 50:8 States 23:9 stats 65:1 status 54:21 stay 80:6 staying 37:21 stays 76:6 stenographic 81:6 steps 50:20 steward 49:23 stock 7:13 8:13,14,20 10:5,6 15:12,15 16:5 stocks 7:24 8:1,1,10,19 9:9,9 10:23 48:20 61:3 61:14,16 story 13:16 16:8	subasset 23:7 23:22 24:10 26:23 53:24 subclasses 28:16 submissions 64:21 submitted 66:11,13 subscription 57:22,24 suffered 57:13 suggestions 38:9 SUITE 1:21 sum 6:2 summarizing 4:20 supervision 81:19 support 67:6 supports 35:19 74:5 sure 26:10 29:15 49:18 50:19 57:7 57:9 58:20 58:20 66:1 75:12,20 surely 63:11 surrounding 4:16 switch 45:3 system 5:20 40:16	21:15 62:7 taken 81:6 takes 44:15 68:14 talk 5:3 15:16 15:19 44:4 58:9 talked 21:8 50:11 talking 24:5 27:9 35:14 35:16 37:6 50:22 73:11 target 19:13 20:14,20,20 21:4,5,10 21:20 29:12 29:18,21 30:12,13,15 30:22 35:6 37:10 40:2 69:15 70:20 71:8 targets 18:14 20:18 28:23 29:3 31:14 33:2 37:19 39:3 47:5 55:13 team 50:6 74:8 technically 55:3 Technology 61:6 tell 42:2 ten 11:7,12 48:20 tend 65:3	57:2,11 56:17,23 57:10 terms 6:23 11:22 12:18 27:14 39:6 40:6 54:13 56:4,16 65:21 72:4 72:17 73:16 78:16,18,20 79:10 text 47:22 50:7 thank 3:9,17 6:4,5 22:1 58:1 80:13 Thanks 3:2 theme 21:18 23:1 24:9 47:6 53:5 themes 20:2 21:11 22:18 22:21 23:10 24:24 25:2 25:14 50:23 52:5 58:17 thing 8:3,16 43:9 47:6 things 7:17 14:23 47:18 47:18 48:4 51:2 76:14 76:20 think 3:20 4:15 5:18 10:16 13:1 18:23 19:16 20:4 22:7 23:21 24:6 25:12 26:22 26:23 31:10	63:6,16 64:17 65:15 65:18,19 66:8,14 68:15,21 69:5,18 70:1,6,13 70:24 71:7 71:11,17 72:7,21 73:2,9,13 74:3 75:22 76:9 77:5 77:13 78:9 80:8 thinking 34:10 thinks 42:14 third 7:10 thought 31:14 38:17 41:1 thoughts 33:11 three 22:24 23:6,10 41:2,3,11 41:21 48:5 48:11 63:1 68:18 tied 57:14 ties 57:2 tight 13:11 36:24 37:1 37:3 time 3:9 4:8 6:22 12:1 28:10 38:1 40:12,14,24	total 12:9 18:10 21:15 26:2 30:21 49:3,8,9,19 51:18 52:24 53:15,18 55:16 70:23 75:2 totally 45:22 towns 66:9 trade 34:13 traders 46:10 traditional 24:13 61:10 trailing 8:11 transcript 3:21 81:8 81:16 Treasurer 2:6 treasuries 24:13 treasury 11:7 11:11 19:22 tree 34:10 trend 40:7 42:18 45:15 63:19 trending 42:15 trends 65:16 trim 45:10 trimmed
simple 47:17 simplification 28:17 simplified 55:18 simplify 56:6 Sinking 1:2 1:11 3:3,10 3:12 23:12 80:14 situation 34:23,24 six 7:13 8:2 9:22 11:6 11:19 12:23 15:11 17:13 18:1,5 skip 32:7 slight 13:9 slightly 15:22 16:4 20:22 27:3,15 slowing 11:8 11:9 slowly 33:23 small 7:24,24 8:10,13 15:21,23 20:16,20 26:5,21 28:11,12 29:4 30:8 30:11,13,17	sovereign 24:7 space 15:13 15:14 45:21 59:18 62:9 62:10 65:14 72:4 speak 39:19 45:11 57:18 speaking 39:17 46:5 specific 13:22 29:3 30:12 30:13 34:10 51:2 53:23 58:23,24 specifically 15:14 spend 6:22 split 29:10 splits 40:4 spoke 23:2 38:2 sponsors 50:9 57:20 staff 43:21 49:17 50:5 59:14 66:12 74:5 75:22 stage 22:10 standard 59:24	status 54:21 stay 80:6 staying 37:21 stays 76:6 stenographic 81:6 steps 50:20 steward 49:23 stock 7:13 8:13,14,20 10:5,6 15:12,15 16:5 stocks 7:24 8:1,1,10,19 9:9,9 10:23 48:20 61:3 61:14,16 story 13:16 16:8 strategic 31:14 56:13 64:24 strategies 70:6 strategy 17:18 40:13 48:21 55:24 68:20 streamline 56:6 STREHLOW 1:20 stretch 32:2 46:11	subasset 23:7 23:22 24:10 26:23 53:24 subclasses 28:16 submissions 64:21 submitted 66:11,13 subscription 57:22,24 suffered 57:13 suggestions 38:9 SUITE 1:21 sum 6:2 summarizing 4:20 supervision 81:19 support 67:6 supports 35:19 74:5 sure 26:10 29:15 49:18 50:19 57:7 57:9 58:20 58:20 66:1 75:12,20 surely 63:11 surrounding 4:16 switch 45:3 system 5:20 40:16 <hr/> T T 81:1,1 tab 22:5 59:8 68:17 table 38:9 58:6 65:19	21:15 62:7 taken 81:6 takes 44:15 68:14 talk 5:3 15:16 15:19 44:4 58:9 talked 21:8 50:11 talking 24:5 27:9 35:14 35:16 37:6 50:22 73:11 target 19:13 20:14,20,20 21:4,5,10 21:20 29:12 29:18,21 30:12,13,15 30:22 35:6 37:10 40:2 69:15 70:20 71:8 targets 18:14 20:18 28:23 29:3 31:14 33:2 37:19 39:3 47:5 55:13 team 50:6 74:8 technically 55:3 Technology 61:6 tell 42:2 ten 11:7,12 48:20 tend 65:3	57:2,11 56:17,23 57:10 terms 6:23 11:22 12:18 27:14 39:6 40:6 54:13 56:4,16 65:21 72:4 72:17 73:16 78:16,18,20 79:10 text 47:22 50:7 thank 3:9,17 6:4,5 22:1 58:1 80:13 Thanks 3:2 theme 21:18 23:1 24:9 47:6 53:5 themes 20:2 21:11 22:18 22:21 23:10 24:24 25:2 25:14 50:23 52:5 58:17 thing 8:3,16 43:9 47:6 things 7:17 14:23 47:18 47:18 48:4 51:2 76:14 76:20 think 3:20 4:15 5:18 10:16 13:1 18:23 19:16 20:4 22:7 23:21 24:6 25:12 26:22 26:23 31:10	63:6,16 64:17 65:15 65:18,19 66:8,14 68:15,21 69:5,18 70:1,6,13 70:24 71:7 71:11,17 72:7,21 73:2,9,13 74:3 75:22 76:9 77:5 77:13 78:9 80:8 thinking 34:10 thinks 42:14 third 7:10 thought 31:14 38:17 41:1 thoughts 33:11 three 22:24 23:6,10 41:2,3,11 41:21 48:5 48:11 63:1 68:18 tied 57:14 ties 57:2 tight 13:11 36:24 37:1 37:3 time 3:9 4:8 6:22 12:1 28:10 38:1 40:12,14,24	total 12:9 18:10 21:15 26:2 30:21 49:3,8,9,19 51:18 52:24 53:15,18 55:16 70:23 75:2 totally 45:22 towns 66:9 trade 34:13 traders 46:10 traditional 24:13 61:10 trailing 8:11 transcript 3:21 81:8 81:16 Treasurer 2:6 treasuries 24:13 treasury 11:7 11:11 19:22 tree 34:10 trend 40:7 42:18 45:15 63:19 trending 42:15 trends 65:16 trim 45:10 trimmed

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 10

45:12,13 triple 23:15 truly 58:14 trust 77:7 Trusts 14:2 try 60:9 trying 13:2 39:22 40:11 46:13 53:20 62:4,12,16 62:21 63:11 tune 11:12,19 14:13 turn 4:11 tweak 66:21 67:6 twelve 8:11 two 1:14 4:7 4:13 5:10 5:12,21 6:13 7:10 7:20 12:12 14:1,2,23 15:9 18:2 21:13 36:19 36:21 38:24 52:2 60:2 62:2 64:17 65:13 79:12 type 47:19 52:8 types 47:11 48:13 typically 24:23 65:3 65:6 <hr/> U U.S 11:8 23:24 33:18 33:24 34:13 51:8 53:19 UK 9:17 36:3 ultimate 54:17 ultimately 65:15 68:19 69:9 umbrella 43:11 underlying 53:24 underneath 9:16 10:2	underperfo... 13:9 underperfo... 16:2 underperfo... 15:9 57:1 underrepre... 61:4 understand 29:15 38:5 41:10 56:12 58:5 understand... 38:19 75:24 77:5 underway 23:13,20 69:16 underweight 14:21,23 20:23 21:2 21:19 31:1 31:24 32:3 32:4 33:1 62:13 Undoubted 10:21 Unfortunat... 23:4 Union 35:13 United 23:9 unraveling 31:19 unstated 32:14 update 4:14 5:16 6:11 6:13 21:7 updated 6:9 6:15 66:13 upper 70:10 upside 63:15 upturn 14:11 use 50:10 <hr/> V valuation 65:2 value 6:16 8:18,19,19 8:22,24 9:9 12:3,10,14 21:9,16 44:5 46:14	59:23 60:21 61:3,8,11 61:12,19,20 62:3,9 63:5 63:8,9,17 64:1,9 valued 60:4 valuing 60:2 various 60:21 vast 39:14 Vaughan 16:1,2,4 verse 13:9,11 17:21 version 6:19 versus 17:22 21:5,10,20 veteran 3:6 vetted 50:6 66:17 view 31:21 34:22,23 violation 54:17 violations 54:19 visited 71:19 voicing 46:22 47:1 volatile 32:13 volatility 9:4 9:10 27:15 27:18 28:6 46:20 vote 9:17 46:16,17 67:14,20 71:14 74:21 voted 72:19 72:24 voting 33:6 <hr/> W wait 6:11 59:14 walk 26:5 want 3:4 6:23 9:3,4,6,10 9:11 12:11 13:8 14:4 19:17,19,24 21:16 27:18 28:13 29:14 37:20 38:20	38:23 41:5 41:19 42:6 45:18 46:4 51:2 52:11 52:15 53:9 54:16 58:9 58:12,23 59:15 60:9 60:16 62:18 67:3,8,14 71:14 72:20 72:21 75:12 79:8 wanted 9:13 11:22 21:7 37:8 38:9 58:18 warrant 28:20 warranted 28:11 70:24 71:10 wasn't 17:23 79:15 watch 41:14 57:17,20 waves 9:19 way 5:4 25:3 39:12 42:15 44:12 49:24 49:24 We'll 79:18 we're 18:16 25:1,10 32:12,18,20 34:8 37:6 40:11,20 71:4 74:20 76:19 Weaver 18:4 18:6 Wednesday 1:8 week 37:7 weeks 12:13 21:13 weight 60:24 61:13 72:18 weighted 70:12 weighting 29:7,21,23 48:6,12,16	49:7 60:19 70:8,23 weightings 61:1 weights 70:17 welcome 3:11 3:12 58:3 Wells 3:7 weren't 25:15 wider 33:4 withdrawal 34:16 35:16 withdrawing 35:14 women-own... 66:16 wondering 38:3 word 79:24 work 69:7 working 14:24 18:19 18:24 41:3 Works 67:12 world 3:6 34:17 35:16 wouldn't 44:22 45:23 writing 38:24 written 49:24 wrong 31:22 55:2,3 <hr/> X X 60:23 76:5 <hr/> Y yeah 5:1 26:14 39:22 39:22 46:13 57:19 73:5 73:9 74:10 75:3,18 78:14 79:2 year 7:2,14 8:2,6,8,24 9:2,22 10:3 10:15,16,20 11:6,7,12 11:19 12:21 12:23 13:4 13:10 15:3 15:12 17:13 18:2,6 24:3	32:9,10 38:16,21,24 60:5 63:7,8 64:3,9 69:5 76:1 year-to-date 7:12,22 8:22 12:22 13:21 14:5 14:7,10,14 15:8,22,24 16:3,7,10 16:12,17,22 17:4,20 24:18 years 3:8 24:5,6 27:24 28:2 32:11 33:11 33:20 35:9 36:2,9 38:24 39:16 60:7 63:13 76:6 yep 42:16,16 yesterday 6:9 23:21 yield 11:17 23:7 24:11 24:16,19 25:8 27:7 27:13 28:4 46:19 55:20 <hr/> yielding 24:13 yields 65:6 Younger 3:9 <hr/> Z zero 45:12,22 46:9,10 <hr/> 0 05 64:10 <hr/> 1 1 5:17 7:1 9:1 9:21 16:13 16:17 27:24 28:3 70:2 1.3 8:23 64:6 1.39 11:14 1.4 15:12 1.47 11:13,14	11:15 1.76 12:21 1.8 15:24 10 5:15 10:4 24:5 32:18 32:20,22 35:8 48:17 70:1 74:14 1000 8:18,18 8:18,20,22 8:23 59:20 60:20,20 62:2 65:7 11 3:22 8:12 11:00 1:16 80:11 116 1:21 12 6:16 10:21 12:14,16 21:8,17 35:6 36:24 37:10,17 12:25 80:15 13 1:8 10:12 10:14,15,17 53:6 13.9 75:1 14 37:5 69:18 80:11 14.18 21:20 15 21:20 29:6 29:18,22 35:9,12 51:12 56:2 62:11 69:15 70:7 150 66:14 16th 1:15 17 17:15 18 36:24 18940 1:22 <hr/> 2 2 7:23 11:4 12:8,9,10 14:6 15:10 16:3 73:23 76:3 2.06 14:7 2.2 16:1 20 24:5 29:6 29:17,23 30:9 32:21 43:22 48:5	48:11 51:8 51:10 55:12 61:9 69:17 70:14 71:4 71:7 74:4 2000 7:20,20 7:23 8:9,24 9:1 2006 63:16 2008 5:3 200s 79:10 2015 64:6 2016 1:8 215 1:23 217 12:14 22 74:3 23 74:4 24 70:3 71:21 25 28:24 51:11 29 61:6 <hr/> 3 3 12:24 27:4 27:8 28:14 3,000 76:3 3.22 12:24 13:5,11 3.31 13:11 3.6 16:19 3.68 17:21 3.74 14:8 3.78 17:21 3.8 7:13 30 6:11,17 9:23 11:13 11:15 12:11 21:12 24:5 24:6 33:11 33:15,20 36:2,9 30-year 31:12 30/35 11:1 3000 53:15 300s 79:10 34 21:4 35 21:5 27:1 28:24 37 70:11 <hr/> 4 4 8:12 9:21 9:24 12:22 20:9,11
---	--	--	--	--	--	---	---

Sinking Fund Commission In Re: July Meeting
July 13, 2016

Page 11

47:4,23	28:2,2 48:4						
73:12	49:5						
4.07 17:22	7.2 30:18						
4.3 17:22	7.25 28:2						
4.4 15:6	72 12:20						
4.62 17:4	78 19:11						
40 3:8 15:15							
41 20:14	8						
42.4 20:13	8 51:7						
45 30:23	8.8 20:20						
33:19	80 74:9						
47 19:3	88 74:17						
483,258,662							
12:10	9						
493,828	9 16:20 20:21						
12:14	30:9,16						
	51:22 61:7						
5	95 72:2						
5 11:5 14:13							
15:4 18:1,6							
28:5,5							
47:23 49:7							
49:10,18							
73:12 74:12							
5.2 18:7							
5.3 11:20							
18:6							
5.5 73:18,19							
74:22							
500 7:9,19							
8:12 59:19							
60:20 61:8							
62:8 65:7							
504-4622							
1:23							
53 19:4							
54 1:21							
55/45 29:10							
58 74:18							
6							
6 8:24 10:3							
14:23 16:18							
16:21 34:1							
47:23							
6.3 8:22							
6.7 8:9							
60 53:9							
62 74:18							
65 7:6,15							
687 19:9							
7							
7 8:10 13:3							