

Sinking Fund Commission In Re: March Meeting  
March 15, 2017

CITY OF PHILADELPHIA  
SINKING FUND COMMISSION

In Re: March Meeting

- - - - -  
Wednesday, March 15, 2017  
- - - - -

This Meeting of the Sinking Fund Commission,  
held pursuant to notice in the above mentioned  
cause, before Angela M. King, RPR, Court Reporter  
- Notary Public there being present, held at Two  
Penn Center, 16th Floor Conference Room on the  
above date, commencing at approximately 10:03  
a.m., pursuant to the State of Pennsylvania  
General Court Rules

- - -  
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A P P E A R A N C E S

COMMISSION MEMBERS:

Donn Scott, Chairman  
Mariya Khandros, (Filling in for Controller)  
Rasheia Johnson, Treasurer

ALSO PRESENT:

Christopher R. DiFusco, CIO, PGW  
Alex Goldsmith, PFM Asset Management  
Marc Ammaturo, PFM Asset Management  
Adam Coleman, Assistant City Solicitor

1 materials in the folder if you care to read them.  
2 We will have those out next time.

3 But if you can now direct your attention  
4 to the handout. This is the preliminary asset  
5 allocation performance for the plan as of the end  
6 of February. You know, there are a number of  
7 performance periods on here. I think I will  
8 start and take a step back and talk about the  
9 markets and economy briefly.

10 You know, we met at the end of -- very  
11 beginning of 2017 in early January, covered full  
12 year 2016. Just for perspective, I think I will  
13 take a step back and look at where we were. One  
14 year ago this week, essentially, the market at  
15 the end of February was at bottom. The S&P 500  
16 started 2016 down 12 percent. Along the way, we  
17 had the British Brexit decision. You know, a  
18 slight uptick in interest rates, oil volatility  
19 and the U.S. presidential election to end the  
20 year 2016.

21 And where did that -- where did the U.S.  
22 stock market end up? The S&P 500 ended up  
23 12 percent for 2016. So in one year, that's a  
24 24 percent swing, 24 percent volatility. And so

1 - - -

2 CHAIRMAN SCOTT: It's my pleasure to  
3 call this meeting to order.

4 The first item on the Agenda is the  
5 Approval of the January Transcript.

6 Is there a motion?

7 MS. JOHNSON: Motion.

8 CHAIRMAN SCOTT: Is there a second?

9 MS. KHANDROS: Second.

10 CHAIRMAN SCOTT: Motion's been made and  
11 properly seconded.

12 All those in favor?

13 (Chorus of Ayes.)

14 CHAIRMAN SCOTT: Looks like the ayes  
15 have it. I think due to the inclement weather,  
16 we are going to skip Item No. 3, and we are going  
17 to go directly to Item No. 4 on the Agenda.

18 And turn it over to my good friends on  
19 my right.

20 MR. GOLDSMITH: All right. Thank you.  
21 And yeah, just a quick note on Item 3. That's,  
22 obviously, the -- goes back into the broader plan  
23 that we set forth last summer with our asset  
24 allocation. A number of the RFPs, there are

1 with that in mind, it was, I think, pretty good  
2 absolute performance considering where the market  
3 started for the year.

4 Just some brief statistics that I can  
5 point to. As of the year end 2016, jobless  
6 claims, believe it or not, were at a low since  
7 1974. Oil is at a high since 2015. It is  
8 continued to sort of climb or sit right in the  
9 low 50s, high 40s. The dollar is at a high since  
10 2003. And let me see. I mentioned oil prices  
11 and jobless claims.

12 And so, where does that put us now?

13 CHAIRMAN SCOTT: What did you say about  
14 the oil prices?

15 MR. GOLDSMITH: Oil prices, they were at  
16 a high since 2015. They are in the low 50s to  
17 high 40 range. Oh, here is what I meant to  
18 mention about oil prices. Talk about the bottom.  
19 They were as low as \$23 a barrel in February last  
20 year. So, I talked about the volatility in the  
21 first half of the year. Maybe that was done as  
22 kind of contributor.

23 Donn, you and I discussed the trump bump  
24 a little bit before the meeting. But in the

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<p style="text-align: right;">Page 6</p> <p>1 fourth quarter of 2016, equity prices were 2 sharply up, large caps up as much as 4 to 5 3 percent. Small caps up, small cap indices, you 4 know, in excess of 10 percent for the quarter. 5 That strong run for equities has continued year 6 to date in 2017. The S&amp;P 500 is up 6.51 percent 7 last year. Small caps which led in 2016 are 8 lagging a little bit in 2017. I think that's 9 just a little of mean reversion. Had a very good 10 year last year. Large caps are leading. 11 And international equity, which lagged 12 pretty significantly in the fourth quarter of 13 2016, is doing very well. Up 5.1 percent to 14 start 2017. So, that percent behind U.S. 15 markets. 16 We get some questions on valuation, you 17 know, with the markets having done as well as 18 they had over the last, call it, four to five 19 months. You know, are they overvalued. And 20 certainly, I think if you look at equity 21 valuations on price-to-earnings basis, that's the 22 most common valuation. 23 U.S. markets are overvalued relative to 24 their own historical averages. They are also</p>	<p style="text-align: right;">Page 8</p> <p>1 they work those plans out. That being said, 2 there is also some political headwinds overseas. 3 There is an election coming up in the Netherlands 4 where you might have seen a lot of ink spilled 5 this week. A right-wing anti-EU candidate has 6 gained some steam. Similar candidates have 7 really gained popularity in France, Germany and 8 Italy. And so, you know, while we think that 9 international economies certainly are unvalued 10 relative to the U.S., the political headwinds are 11 actually greater, we think, you know, overseas 12 stemming from a further weakening of the European 13 Union. 14 You know, so that's what happening on 15 views on equities. I would be remiss if I didn't 16 address fixed income, which will be another 17 challenge we think in 2017. 18 If you'd like to look at something 19 really, you can flip over just briefly to the 20 back of the handout. And if you look at the 21 September to February, that's our plan year-to -- 22 date returns. You can see pretty sharply 23 negative absolute return across the indices 24 there. Interest rates ticked up pretty</p>
<p style="text-align: right;">Page 7</p> <p>1 overvalued relative to international equity. 2 However, when you look at -- that's based on last 3 year's earnings. If you look at current prices 4 relative to expected 2017 earnings, you know, 5 every public company does have to release those 6 on an annual basis. So if you look at that 7 forward price-to-earnings, the valuation 8 discrepancy is much lower. 9 And why is that? I think that's 10 because, you know, companies and, you know, our 11 investment committee included are looking for 12 greater growth in the U.S. coming from, I think, 13 certain policy and political tailwinds. We have 14 spoken about reduction in the corporate tax rate, 15 all around reduction in the, you know, tax 16 regulations, certain environmental healthcare 17 regulations, an uptake in infrastructure spending 18 and just all around a friendlier climate for U.S. 19 business expansion. 20 Despite that, there are some political 21 uncertainties stemming from the implementation of 22 those policies here in the U.S. We, obviously, 23 seen the Trump Administration, for lack of a 24 better word, have some missteps along the way as</p>	<p style="text-align: right;">Page 9</p> <p>1 significantly from the end of the election to 2 where we are now. The U.S. ten year sitting in 3 the 2 1/2 percent range and climbing. The 4 Federal Reserve is expected to raise rates today. 5 Just in even the last week, the expectations for 6 Fed Rate hike have shot up. The Barclays 7 aggregate is down half a percent over the last 8 week. In March it's down 1.3 percent. 9 So when -- between interest rates and 10 bond prices, there is an inverse relationship. 11 As rates go up, bond prices go down. That 12 typically has spelled greater magnitude in the 13 longer term bonds. And you know, there is some 14 things we can do around -- around rising rates to 15 help the portfolio. We can talk about that when 16 we cover the plans. But, you know, equity prices 17 certainly high valuations, but with some good 18 growth as expected. Fixed income should be 19 challenged and rising rates. 20 Any questions on the markets or economy 21 at all? 22 (No questions.) 23 MR. GOLDSMITH: Moving over to 24 discussing the actual performance of the plan.</p>

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<p style="text-align: right;">Page 10</p> <p>1 You can see as of the end of February, 2 505,646,000. And pretty good absolute returns. 3 The year-to-date number, that's four columns 4 over, I think that's what I'm generally going to 5 focus on here. There are a number of performance 6 periods, but I think that is the most interesting 7 to focus on where we are now. You can see good 8 absolute return, 4.3 percent for two months of 9 the year. Also pretty good relative return, 10 outperforming the benchmark by about 40 basis 11 points. 12 Moving through the managers. Vast 13 majority of domestic equity is indexed. Those 14 plans do well and capture the full appreciation 15 of the large cap market. The next two active 16 managers O'Shaughnessy and Fred Alger, those were 17 the two funds that we were considering for 18 possible replacement with the managers that would 19 have been interviewed today. 20 And if you look, you can see there's a 21 pretty big discrepancy between those two 22 managers; 3.5 percent for O'Shaughnessy; 23 9.2 percent for Alger. And that is really the 24 difference in using a value and growth mandate.</p>	<p style="text-align: right;">Page 12</p> <p>1 typically more innovative, nimble companies. 2 Given our view, the growth of the U.S., we still 3 favor small caps. This plan has an overweight in 4 small caps. You can see that later. We 5 recommend retaining that now. I will point out 6 that Eagle so far this year has really done a 7 strong job. And again, they were lagging over 8 the one-year number. But this good quarter to 9 date so far has brought that -- brought their 10 one-year return back up in line. 11 Again, international equity. Little bit 12 of a weak performance at the end of 2016. Doing 13 very, very well to start 2017. You know, some 14 contributions from the active managers; Mondrian 15 certainly; DFA relative to international equities 16 and Harding, as well, year to date and over the 17 one-year numbers. 18 So, there is an underweight in the plan 19 relative to international equity. That 20 underweight generally helped for the quarter as 21 was directed to domestic equities which typically 22 outperformed. So, both the active managers and 23 underweight contributed so far year to date. 24 Lastly, fixed income again on the back.</p>
<p style="text-align: right;">Page 11</p> <p>1 O'Shaughnessy is value index. They did very, 2 very well in the fourth quarter of 2016. 3 For six quarters in a row now, value and 4 growth style funds have flip-flopped with one 5 style outperforming the other. What that does to 6 a portfolio is, well, if you have allocations to 7 both, you still might get the average 8 performance; but the volatility of your portfolio 9 would be much higher. That's why, again, we 10 recommend going to a core approach there. But 11 you can see, again, 3.5 for O'Shaughnessy. Very 12 strong 9.2 for Alger relative to the benchmark. 13 Again, some strong absolute basis. That brought 14 their trailing one-year number of which had 15 lagged pretty significantly back up in line with 16 the benchmark. But again, we think that the dual 17 styles adds a little too much volatility in the 18 the portfolio. 19 Year-to-date, small cap. Moving on down 20 the line. Small cap contributed less of a 21 portfolio than it had in 2016. Small cap 22 significantly outperformed large caps for 2016. 23 A little bit of reversal to start the year. But 24 again, given the nature of small cap stocks,</p>	<p style="text-align: right;">Page 13</p> <p>1 So, we talked about the absolute. The negative 2 absolute return. Year to date as of the end of 3 February, you can see all the managers and the 4 indices are positive as the Fed meeting has 5 approached over the last -- again, I mentioned 6 trailing one week, the Barclays Aggregate down 7 half a percent, so even further over the month. 8 I don't have the year-to-date numbers yet. It 9 actually does look like fixed income year to date 10 is probably slightly negative. 11 So right away as of February, all these 12 managers were up for the year. Again, the 13 actives generally, you know, outperformed based 14 on overweight to credit. I mentioned how longer 15 term bonds do less well when rates rise. So 16 generally, these managers have adopted a shorter 17 duration, higher yield portfolio than their 18 benchmarks. 19 The -- I mentioned what are some things 20 we can do to ameliorate a tough period for fixed 21 income. And I think, you know, our 22 recommendation would echo what the managers 23 themselves have done. That's add to some 24 spread -- some spread asset classes like high</p>

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<p>1 yield. High yield below investment grade, 2 another name for it. Certainly riskier subasset 3 class within fixed income. But as the economy is 4 doing better, which we believe it is -- I spoke 5 to it earlier -- the defaults within high yield 6 tend to decrease. So, you're still capturing a 7 higher yield with lower defaults. 8 So you know, we added some investment 9 grade credit. We outlined plans with staff. And 10 the last meeting to issue an RFP for dedicated 11 high yield exposure. We still have plans to do 12 that. So, these are some of the themes and ideas 13 that we would like to implement for this 14 portfolio, to keep yield high, you know, over the 15 next several years. 16 But otherwise, again, it's a good start 17 to the year so far. 18 CHAIRMAN SCOTT: Let me ask a question. 19 I want to go back to large cap. And you made 20 reference and a distinction between value and 21 growth, right? And one was 3.55 and the other 22 was 9.21; am I correct? 23 MR. GOLDSMITH: Uh-huh. 24 CHAIRMAN SCOTT: Give me the definition</p>	<p>1 companies, dividend orient companies, industrial 2 companies. I think, again, slower growth 3 companies. Those tend to be value because it's 4 easier to come to some fair value of what their 5 price should be. We know what they own. We know 6 what they're making. It's relatively consistent. 7 If they are trading at a discount to that, there 8 is really no reason it should be. And so, that's 9 value. 10 Growth stocks are, I think, the 11 opposite. Those are -- well, not the opposite. 12 But companies that are maybe not as cash flow 13 positive. They are driving a lot of their cash 14 flow back into capital expenditures, looking for 15 sales channel, growth product, market growth. 16 They're typically valued on expected earnings. 17 You know, what can we expect five years from now. 18 Not, you know, what have you been churning out 19 for the last six, seven years. Let's get a 20 valuation based off of that. 21 So again, a little tougher to value. 22 They have higher price to earnings on an overall 23 basis. That being said, their growth rates can 24 be significantly higher. And so if your earnings</p>
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<p>1 of the value stock versus a growth stock. 2 MR. GOLDSMITH: Broadly, value stocks 3 are those that are trading at some discount to a 4 fair value of what their stock should be. So, 5 you can value a stock based on the simplest 6 method is a discounted cash flow. You are going 7 to earn X amount of money for the next five 8 years. Apply some kind of value, the DCF 9 calculations for that, get a valuation of 10 company. 11 You know what the earnings of the 12 company are. They are public companies. You 13 have all that information. If a company you can 14 go out and get their last five year of earnings, 15 do a discounted cash flow and you get a valuation 16 of X and their share price is something below X, 17 that is a value opportunity. Now I said that's 18 the value opportunity. There are typically 19 sectors that are more value oriented than others. 20 Financial. These are something where 21 it's pretty easy to see what the fair intrinsic 22 value of the company is. Be they're asset heavy 23 companies. They are very, very stable, low 24 growth companies like utilities or telecom</p>	<p>1 growth is higher and if you believe in, again, 2 the way a company should be valued, you will see 3 how growth stocks. So, those sectors are 4 information technology, healthcare, to some 5 extent consumer discretionary. The consumer 6 sectors are a little bit of both. 7 CHAIRMAN SCOTT: What would be -- 8 MR. AMMATURO: To complement what Alex 9 said, when you thing growth, I would think of a 10 company that reinvests back in the company. Alex 11 mentioned IT. He mentioned healthcare. There 12 are a lot of R&amp;D in the healthcare company. IT 13 is always investigating, researching the next and 14 great Google company. So, there is a lot of R&amp;D 15 that's invested back in the company to support 16 the growth companies such as an IT company or 17 healthcare company. 18 As opposed to a value company that will 19 be paying out a good portion of their earnings as 20 a dividend. So, you get dividends more from 21 value stock. They don't invest back in the 22 company as much, again, like a financial service 23 company as opposed to, again, IT, healthcare 24 where they don't want to give that money to the</p>

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<p style="text-align: right;">Page 18</p> <p>1 shareholders necessarily. They want to invest it 2 back in R&amp;D to get the next great drug or next 3 great invention. 4 Makes sense? 5 CHAIRMAN SCOTT: Yeah. 6 MR. AMMATURO: That's how simplistically 7 how I look at it. Apple undoubtedly is a growth 8 stock. Keep on investing in R&amp;D. Trying to 9 invent the next iPhone. Those are growth stocks. 10 MS. KHANDROS: Do you foresee any impact 11 from the healthcare laws that are being 12 considered right now to these growth stocks? 13 MR. GOLDSMITH: You know, I think there 14 certainly would be some impact when the 15 Affordable Care Act was passed. I'm not a 16 healthcare expert. I don't want to speak exactly 17 to what will happen. But I think that goes to 18 why we manage the portfolio the way we do in 19 giving the stock selection decisions, giving the 20 sector decisions to the managers that live and 21 breath in those sectors. 22 We don't ever add sector-focused funds. 23 There are a lot of healthcare only funds out 24 there. It's permissible by the investment policy</p>	<p style="text-align: right;">Page 20</p> <p>1 style. We will talk a lot more about that before 2 the interviews. 3 So, that's really all I have on the 4 performance. 5 MR. DIFUSCO: The only other thing I 6 wanted to add was on an absolute basis, the plan 7 is up slightly for the month. So, you see the 8 505 million as of the close of the business 9 yesterday. And that's after benefits were paid, 10 plan assets are at 507.71. So, there's been a -- 11 I can't tell you specifically how the managers 12 and such have done yet mid month, but I can tell 13 you on an absolute basis, there's been a slight 14 gain for the plan this month. 15 CHAIRMAN SCOTT: Okay. 16 Are we now prepared to move to No. 5? 17 MR. GOLDSMITH: Yes. This is the last 18 tab of the book. And the second handout, the 19 rebalancing worksheet as of March. 20 Do you all have this? Okay. 21 This is, just again, we were pretty 22 significantly overweight to domestic equities, 23 particularly large cap. A lot of that was result 24 of the new investment policy statement. Which if</p>
<p style="text-align: right;">Page 19</p> <p>1 statement that we approved. I don't ever see us 2 making a recommendation for that concentrated on 3 the strategy precisely for reasons like we are 4 seeing right now that policy -- you want to be 5 diversified. If you're not, certain policy 6 decisions can over-implications. I honestly -- 7 don't know if it would be good or bad for the 8 healthcare industry as a whole frankly. I know 9 we still are a little bit away from that. 10 That's another point, too, with the 11 value growth. When you have a value manager and 12 a growth manager like these two, they are 13 benchmarked to value and growth indices. For 14 example, Fred Alger, there are growth benchmark. 15 Their benchmark is going to have a higher degree 16 of IT, healthcare, et cetera. So by -- if 17 they're benchmark cognisant, they are going to 18 have a higher degree of that. 19 We don't have anything against growth 20 stocks or value stocks. We want the manager to 21 be able to go into those styles or the industry 22 sectors based on their own -- their assessments 23 of the markets at any given time. Not because 24 they're beholden to a value style or a growth</p>	<p style="text-align: right;">Page 21</p> <p>1 you recall, was approved several meetings ago. 2 It had new targets. It had a higher target to 3 international equity, which was more in line with 4 international equities representation within 5 global market cap. You know, it's close to 50 6 percent of all, you know, market capitalization 7 in the world. We felt having a 15 percent 8 benchmark target was too low. Again, we want to 9 be diversified across the world, et cetera. That 10 target was moved up to 20 percent. 11 But given our views at the time, going 12 back to this summer, PFM's views, I would say, we 13 recommended that we do not bring the plan up to 14 full benchmark weighting at the time. It was 15 fairly recently following the Brexit decision. 16 We had favorable views for the U.S. And so, that 17 international equity was left at about 6 percent 18 underweight. Again, that mimics positioning that 19 PFM has for its counsel. We have full 20 discretion. We are about 6 percent underweight 21 or so. 22 And that underweight benefitted the plan 23 throughout the fourth quarter. Domestic equity 24 significantly outperformed international equity.</p>

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<p style="text-align: right;">Page 22</p> <p>1 That is 6 percent underweight helped. Take it to 2 the start of the year, again, I talked earlier 3 how U.S. markets are overvalued, you know, on 4 several basis when you look at them. Certainly, 5 relative to international. There are political 6 headwinds on both fronts. But I think the 7 valuation discrepancy got to be of a magnitude 8 that was difficult for us to ignore what was a 9 good opportunity to buy or add back to 10 international equity. 11 Certainly, being underweight the 12 benchmark is a risk on position. So, we removed 13 that risk from the portfolio or we recommend 14 removing it from the portfolio and going back to 15 benchmark weighting. Moving some -- outsourcing 16 most of that from domestic large cap equity, 17 which is, as I mentioned, overvalued right now. 18 It's performed very well for the last, you know, 19 five months as I mentioned. So, we can take some 20 of those gains off the table. Reallocate to 21 international equity, which is cheaper on 22 valuation basis. And again, remove the risk from 23 the portfolio by going back to benchmark wages. 24 This mimics changes that we have made in</p>	<p style="text-align: right;">Page 24</p> <p>1 we are fine. Actually recommend keeping the 2 small cap overweight. And then you will be flat 3 in international equity and then underweight in 4 fixed income. 5 MR. AMMATURO: And the column to pay the 6 most attention to is the proposed action column, 7 which is second to far right. It tells you where 8 the money is coming from and where the money is 9 going to. If you see the negatives, obviously 10 those managers are getting trimmed. And the one 11 that is in the positive figures are underneath 12 international equities, Alex communicated, 13 Mondrian, Harding. You see the positives 14 figures, this 18 and 15 million. 15 MS. KHANDROS: Can you explain the cash 16 and cash equivalent section? Why are we adding? 17 MR. GOLDSMITH: Okay. So that's -- I 18 believe this has already been done. At the same 19 time, Chris had asked us for advice on raising 20 cash for benefit payments, which we do on a 21 monthly basis. 22 MS. KHANDROS: Okay. 23 MR. GOLDSMITH: That additional 25 you 24 can see on the net-to-net basis. All the way at</p>
<p style="text-align: right;">Page 23</p> <p>1 our discretionary portfolios. Those were made 2 about two weeks ago, three weeks ago in the end 3 of February. At the same time, we also, I 4 believe, were slightly overweight to emerging 5 markets. So as a part of this rebalancing, 6 again, we just want to get back to benchmark 7 weighting across the board or across the equity 8 spectrum. 9 You will notice on here there is about a 10 31 -- call it a 4 percent or 3 percent 11 underweight to fixed income. 31.7 versus 35. 12 Given our views on fixed income, we would not 13 bring that up to benchmark weight. You can see 14 at the far right column after the rebalancing 15 actions, that would still be a 31.7 percent. 16 That overweight would be to large and small cap 17 equity. 18 Following this recommendation, you would 19 be slightly overweight to domestic equity. You 20 know, small cap at 9 percent target is just a 21 ballpark figures. There is no formal target for 22 small caps within your investment policy 23 statement. This plan is overweight based on a 24 market capitalization metric. But that, again,</p>	<p style="text-align: right;">Page 25</p> <p>1 the very top, it's 2.5 coming out of equity. 2 MS. KHANDROS: I see that. 3 MR. GOLDSMITH: I believe that that on 4 the margin is coming from Northern Trust, which 5 is an index fund. It's a higher fee than on 6 Rhumblin. Usually, we take the balance out of 7 there. 8 MR. DIFUSCO: Our contributions to 9 benefits on monthly basis. Part of it comes from 10 PGW directly. The rest comes out of the fund. 11 About 2.1 million is comfortable. I have 12 explained to the commission, PFM supports -- I 13 like to have at least three months of our benefit 14 payment. We have seen a couple months where it 15 actually -- maybe Donn probably remembers this, 16 it was not too long after he started -- where the 17 market had really dove. And rather than selling 18 things off at what we thought was temporary bond, 19 we funded that month out of the cash. It was a 20 good move. And then we just replenished the cash 21 later. 22 So actually just this morning, I added 23 that, you know, 2.1 million roughly back into the 24 custody cash, you know, account. So we should be</p>

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1 about at 6.8, 6.9 million roughly in cash by  
2 tomorrow morning.  
3 MS. KHANDROS: Thank you.  
4 MR. DIFUSCO: No problem.  
5 CHAIRMAN SCOTT: Let me make certain I  
6 understand. So, large cap we are going to go  
7 from 44.4 to 37.9?  
8 MR. GOLDSMITH: Yes.  
9 CHAIRMAN SCOTT: And then we are going  
10 to take a reduction and put it in international  
11 equities?  
12 MR. GOLDSMITH: Uh-huh.  
13 CHAIRMAN SCOTT: Okay.  
14 MR. AMMATURO: Yeah.  
15 MR. DIFUSCO: We would just need a  
16 motion and, you know, agreement from the  
17 Commissioners assuming they are comfortable with  
18 that.  
19 CHAIRMAN SCOTT: All right.  
20 Is there a motion to support the  
21 recommendation?  
22 MS. JOHNSON: I have a quick question.  
23 MR. DIFUSCO: I'm sorry.  
24 MS. JOHNSON: No, no, no. No problem.

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1 Just kind of going back to the cash. Since we  
2 are going that route, and I remember that of  
3 keeping that three months' supply there. Does it  
4 make sense for -- I know the range is from 0 to  
5 10, to target, you know, maybe putting a 1  
6 percent or 2 and a half percent target there  
7 because we know we are going to keep some dollars  
8 there?  
9 MR. DIFUSCO: Make it more of a fixed  
10 target of like 2 percent or --  
11 MS. JOHNSON: Right. Exactly.  
12 MR. GOLDSMITH: That would be for the  
13 total cash?  
14 MS. JOHNSON: That's correct.  
15 MR. GOLDSMITH: Now when it comes to the  
16 money market versus custody cash, is there a  
17 difference?  
18 MR. DIFUSCO: No. In fact, the money --  
19 MR. GOLDSMITH: I think we raise it --  
20 MR. DIFUSCO: We do -- the money, in  
21 fact, is swept almost automatically. There is  
22 not really a difference between the two. I think  
23 that's a good suggestion for future, you know.  
24 MR. AMMATURO: Do they have a cash

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1 target in their IPS?  
2 MR. GOLDSMITH: No. There is a. There  
3 is no formal cash target. It's a range.  
4 MS. JOHNSON: It's a range. Right.  
5 MR. GOLDSMITH: Again, I don't think we  
6 need to make any amendments. This is an informal  
7 document used for review purposes. Like I said,  
8 there's no small cap target on the IPS either.  
9 It's emerging markets target.  
10 MR. DIFUSCO: I think to your point it  
11 makes sense to do it somewhere. We can have a  
12 footnote.  
13 MS. JOHNSON: Yeah.  
14 MR. DIFUSCO: Just to note the general  
15 target is 2 percent. I agree. It's something we  
16 should do going forward.  
17 CHAIRMAN SCOTT: The 1.87?  
18 MR. DIFUSCO: Well, just to say that  
19 it's a 1 and a half to 2 percent target. I think  
20 to Rasheia's point, to specify the range, the  
21 normal range a little bit more tightly than what  
22 it says here. I think that's a good solution.  
23 We can do that going forward.  
24 CHAIRMAN SCOTT: First of all, I am

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1 going to let you make the imposed recommendation.  
2 MR. DIFUSCO: We would ask the  
3 Commissioners to make a motion to support the  
4 proposed rebalancing as noted in the PFM memo.  
5 At a high level, the summary would be to take  
6 roughly \$32.8 million from domestic large cap  
7 equities and rebalance primarily into  
8 international equities to bring us back to more  
9 of a target weighting. So, I would ask the  
10 Commissioners to support that if they are so  
11 inclined.  
12 CHAIRMAN SCOTT: And what about the --  
13 MR. DIFUSCO: And then as a footnote --  
14 sorry, Donn. As a footnote, we would also going  
15 forward note in our materials and memos that more  
16 exact cash target is roughly 1 and a half to  
17 2 percent.  
18 CHAIRMAN SCOTT: Thank you.  
19 Motion has been made.  
20 Is there a second?  
21 MS. JOHNSON: Second.  
22 CHAIRMAN SCOTT: Motion's been made and  
23 properly seconded. All those in favor say aye.  
24 (Ayes.)

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1 CHAIRMAN SCOTT: Ayes have it.  
2 Thank you.  
3 MR. DIFUSCO: Thank you.  
4 CHAIRMAN SCOTT: And we are moving right  
5 along.  
6 The next item is New Business.  
7 MR. GOLDSMITH: I have no new business.  
8 You know, obviously, I think -- Chris, we can  
9 talk offline about, you know, rescheduling the  
10 presentations. I don't know. Maybe it makes  
11 sense to discuss here if you would like to do an  
12 interim meeting or you think we can handle that  
13 in May.  
14 MR. DIFUSCO: That's up to the  
15 Commissioners. I've tentatively asked the folks  
16 that were scheduled to present to hold May 10, so  
17 that would be the next regularly scheduled  
18 meeting. If there is a desire on behalf of the  
19 Commissioners to do it sooner, we can circulate  
20 dates. Otherwise, we will plan to bring them in  
21 May 10. It's really a decision for the three of  
22 you, how you'd like to handle that.  
23 MR. GOLDSMITH: We can discuss offline,  
24 let people look at their calendars. We can talk

1 MR. GOLDSMITH: We will talk offline  
2 about getting the next one posted.  
3 CHAIRMAN SCOTT: There seems to be a  
4 clarity that our next meeting is going to be on  
5 May 10 at ten o'clock.  
6 And if there are no additional items to  
7 be discussed, this meeting is hereby adjourned.  
8 Thank you.  
9 (Sinking Funds Commission Meeting adjourned  
10 at 10:34 a.m.)  
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1 about then extending the time table for other  
2 interviews and things, as well.  
3 CHAIRMAN SCOTT: Whatever works best for  
4 you all. I'm flexible.  
5 MS. KHANDROS: I was going to say the  
6 same.  
7 MS. JOHNSON: May 10 works.  
8 MR. DIFUSCO: That's fine.  
9 MS. JOHNSON: Unless you think that  
10 there needs to make a change sooner than that.  
11 MR. DIFUSCO: No. I think May 10 is  
12 fine.  
13 MS. JOHNSON: Okay.  
14 MR. DIFUSCO: I'm fine with that. It's  
15 not urgent.  
16 MS. JOHNSON: Okay. I would say that  
17 date is already on the calendar. We know that.  
18 MS. KHANDROS: Originally for May 10,  
19 were there going to be other presenters? Or is  
20 this the three, the only three finalists?  
21 MR. GOLDSMITH: I don't believe we were  
22 going to have interviews scheduled anyway next  
23 time, so it will just be these three.  
24 MS. KHANDROS: Okay.

CERTIFICATION

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

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

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