DEPARTMENT OF CITY CLERK

CITY HALL

AUGUST 22, 2013

The Board of Investment Commissioners meets this day at 12:00 o'clock P.M., in The Conference Room, Third Floor, City Hall.

PRESENT: Vice-Chairman James J. Lombardi, III, Michael Pearis, Finance Director and Councilman John J. Igliozzi – 3.

ABSENT: Mayor Angel Taveras, Aaron Simon, Ted Mocarski and Mark A. Tracy– 4.

Also present are Eric Bertonazzi, President/Chief Investment Officer, Wainwright Investment Counsel LLC; Jeffrey D. Fabrizio, Wainwright Investment Counsel LLC; Tobey Shepard, Deputy Director of Policy, Mayor's Office; Matthew Bobola, Senior Auditor, Office of the Internal Auditor; Karen Gomez, Fiscal Advisor, Parks Department; Lori L. Hagen, Second Deputy City Clerk and Sheri A. Petronio, Assistant Clerk.

I INVESTMENT PERFORMANCE ANALYSIS

1.) Recent Performance Estimate

2.) Portfolio Structure and Performance Summary: Asset Class

3.) Manager Performance: Benchmark vs. Manager Analysis

A.) US Equity Managers

B.) International Equity Manager

C.) Fixed Income Managers

II DISCUSSION RELATIVE TO THE DEXTER DONATION FUND AND OTHER TRUST ACCOUNTS INCLUDING THE CASH BALANCE OF THE FUNDS.

III DISCUSSION RELATIVE TO CLAIMS AND LITIGATION (CLOSED SESSION RIGL 42-46-4 AND RIGL 42-46-5 (a) (2) PENDING LITIGATION) – LAW DEPARTMENT.

IV REQUEST OF ROBERT F. MC MAHON, SUPERINTENDENT OF PARKS, TO TRANSFER $350,000.00 FROM THE NORTH BURIAL GROUND TRUST, TO AN EXPENDABLE ACCOUNT (801) TO OFFSET ALL OPERATIONAL COSTS OF THE BURIAL GROUND FOR FISCAL YEAR 2013.

Due to the lack of a quorum, an informational meeting was held and no votes were taken.

MR. BERTONAZZI: Okay, the market has been selling off a little this month based on fears and what the Fed is about to do, the tapering of bond purchases. If you're watching the news or monitoring this, you will hear the word tapering ten times a day.

MR. PEARIS: I thought that was already reflected in the market. It was a big drop then it was kind of coming back.

MR. BERTONAZZI: So, what happened was is he broached the subject May 22nd, and then again June 19th the markets sold off. Interest rates rose rapidly, equities fell and that scared him and the rest of the board. They came out and said, time out, you misunderstood us we're not going to do that much that fast. The market goes back up, the rates come down and now they've been sending signals that they are in fact probably going to start tapering next month. September 18th is their meeting. They will probably do some of that. That's got people spooked a little bit. Yields rising, so the ten year yield today is like 290. Before he started saying this on May 22nd, it was 190. So, we're up 100 basis points on yield on the ten year and mortgage rates have gone up even more. They were 3.4% or 3.5% for a standard thirty year performing 20% down mortgage. Now you're looking at 470. So, that's a big jump and that's got the market's attention, and I expect more of this volatility here in the short run for the next two to three months, but by the end of the year I think we're going to be higher than we are now and I think yields will have stabilized somewhere around where we are plus or minus. You can see equity having a very strong year. Domestic equities up 19.4%, so you're seeing twenties, nineteens and fifteens on you equity line there. You see Brandes is coming back, our international manager. Interestingly Europe is outperforming the

U.S. in recent weeks. While the U.S. has been going down Europe has been going up. Keep this one in mind for later. Europe is bottoming now. They're out of their recession. They just came out of the longest recession it had because of the government debt crisis since World War II. It just ended as we're speaking. Now, I don't think they're going take off and go gangbusters, but what they're going to do is sort of bounce along the bottom and get a little bit better. So, your international manager Brandes, which has a lot of European exposure has been catching up lately and have in fact passed the U.S. managers here in coming months. That's what's been happening there.

MR. PEARIS: Any particular area within Europe?

MR. BERTONAZZI: It's all going up and the periphery meaning Spain, Italy, they're going up more because they got so beaten down. So, we're actually seeing more upside there lately. Whether that continues of course we don't know, but they're in a rebound mode, and that's good news for the global economy.

MR. PEARIS: What about Asia and South America?

MR. BERTONAZZI: China had what I would call a mini slump, a double dip. They had a slowdown, they stimulated and the economy and the markets went up in China. The new regime that took control in China in recent months, there is a new sheriff in town, cracked down heavily on what is known as the shadow banking system. So, in China they have state controlled banks. The state controls everything. The banks were starting to be supplanted in the amount of credit supplied to the economy by the non-official sources, not your legal sources just non-official and they were staring to lend more than the central government was comfortable with. Too much credit and loses were starting to build up in that part of the system. So, they took some actions and they told them stop making all these risky loans. They didn't listen, so the central government, which is essentially all powerful heavily manipulated short term market interest rates for a period of weeks. It's called the seven day repo rate. It took it from 3% to 13% in two weeks, which heavily hurts those people who are lending who are making those loans and they got the point. They stopped, they finally listened. So, in any event, those actions to control the shadow banking system slowed China down noticeably for about six months. It's just starting to pick back up again. So, to answer your question, China is coming back out of this little mini slump, equity markets are staring to go up, but that slowdown in China heavily affected the global economy especially on the commodities; Copper, iron, oil, wheat, corn. There was a lot of impact in those areas and now we're starting to see those commodity prices stop falling and coming up a little bit due to this affect in China. Japan, to finish answering your question about Asia, the new Prime Minster just had his party so he swept to power. He took the upper house, which is their version of the senate essentially, and he just took the lower house in a very wide margin. He has done a lot of things including bonked the bank of Japan over the head incisively until they massively eased interest rates and started doing a quantitative easing program of their own, which is far larger relative to their economy then we're doing. This weakened the yen, which is what they were trying to do, increased their exports because the yen is weaker, and you're starting to see some acceleration in the Japanese economy, mostly volatile, but mostly up. The stock market is up a lot and the yen has weakened noticeably. So, that continues to go on. So, you're starting to actually get some contribution to global growth from Japan for the first time in a very long time. South America is quite weak and the other emerging markets are quite weak. I will step back a little it. When the Fed first started the heavy use of quantitative easing and massive accommodation, this caused the dollar to weaken as our rates went down and the markets interpreted correctly what the Fed was trying to do. So, our rates go down and the dollar weakens. What that caused was vast amounts of capital to go towards the emerging markets; Brazil, India, Thailand, Korea, some of those other sort of up and coming emerging markets. That caused their currencies to strengthen a lot, which messes with our economies. When the U.S. does things the emerging markets get heavily affected sort of as collateral damage if you will. They complained about that loudly. You're driving our currency values up, all this capital is flowing in and you're hurting our exporters and you're making our currencies too strong. So, they complained about that to the Fed and the Fed doesn't listen to them. They said we're going to do what's right for the United States. Now, since the Fed is starting the opposite, and that is tapering the bond purchases and signaling to the market that interest rates are going up, and that has caused the dollar to strengthen and it's caused the emerging market currencies to weaken, and in fact they weakened more than they were in the other direction and now they're complaining about that. In any event, they are getting jostled around by our policies and the markets have noticed and the emerging market bonds and emerging market equities have been getting hit very hard in recent months. In fact, they're down well into the negative territory year-to-date. So, we don't happen to have very much emerging market exposure at all in this portfolio. Had you had a dedicated emerging market manger you would see it would be in the negative territory this year, so another global impact of what we do in the United States. So, you can see the portfolio is doing pretty well, it's up 9.7%. I'm very pleased with the returns. It's very high relative to your peers. As a matter of fact, if you want I will move on unless there are more questions. I will move to whatever else we handed out to you. Mr. Pearis, this is related to what you requested from us in the past. Here are your rankings through June 30th. They came out. If you look at this page here, titled Public Fund Universe, June 30, 2013, you will see our updated rankings through the fiscal year. I know this is important sometimes. So, this is through June 30th. You can see where our returns are and what our ranks is relatively to a peer group, which contains $1.5 trillion dollars worth of other public plans.

MR. PEARIS: Is that twelve months ending June 30th, or is it six months ending June 30th.

MR. BERTONAZZI: This is many different periods. You have three years, five years, seven years and ten years annualized per years. So, you can see, for example, if you look in the three year column, which coincides very closely to the Mayor's term for example, if you look at that you will see where the dot is, we're at the very top of the peer group, in the top 7% and we have annualized over that three year period at 13.46% per year over that timeframe putting us in the top 7% of that $1.5 trillion dollar universe. If you look at the five year number, we are in the top 9%, if you look at the seven year number, we're in the top 18% and if you look at the ten year number we're in the top 5% of the peer group over that timeframe annualizing over the last ten years at 8.79% in this universe, which is pretty strong. These are pretty good numbers. So, that's related to the data that you had asked for in the past. We thought we would apprise you of that and update you on those rankings. If we can stay there that would be fantastic. If you would also like to look this was something that was asked and we've been updating it. The City of Providence Employees' Retirement System calendar year and trailing period return data. This was also asked. If you open that up, it's your returns verses the State of Rhode Island. The first page shows calendar year performance and how you compare by year and over trailing periods to the State and you can see what the trailing periods are. Three, five, seven, ten and even the thirteen year period and we're beating the State on all of those periods by a healthy margin. That's on a calendar year basis. The next page is something that was requested in recent weeks, which was requested based on the fiscal year. So, we calculated some data based on fiscal year that is ending June 30th. So, through

June 30th of this year on page two 2013, you will see that over the trailing one year first line, the City of Providence made 13.4% net of all fees and the State made 11.1%. We beat them by 2.3%. Over three years 12.8% versus 10.6%. We beat them by 2.2% per year. Over five years 6.7% versus 4.3% and so on. You might say, gee, that's nice, but that's not that much. It turns out that that's a gigantic amount of dollars on portfolios of these sizes the state and the city over that timeframe. For example, I did a back of the envelope calculation. So, it's not exactly correct because I would need more data, but if you just look over the five years with our trailing number of 6.7% and theirs verses 4.3% for a difference of 2.4%. Had the State of Rhode Island earned the same return you did over that five years, they would have an extra billion dollars in their portfolio plus or minus a little bit. That's what 2.4% a year means over five years when you're talking dollars that big. Something around $1 billion dollars. I can't say exactly, but that's where it is.

MR. PEARIS: I don't think our asset allocation is that significantly different in terms of weighting, correct?

MR. BERTONAZZI: As far as I can tell we have less private equity then them and less hedge funds. We have different equity and different fixed income. That makes a difference and I think the biggest difference is, and I've been doing this for a long time, twenty years and I've seen lots of cities and municipalities. So, we've picked good managers. So, you're in the top 5% over the last ten years against your peers. If you looked at our managers not every manger is in the top 5% of their peer group. They're in the top quartiles, they're good, but they're not all in the top 5%. So, it's not manager choice that is driving the difference solely, It helps. It's not assess allocation solely, it helps. The biggest reason, and it's difficult to prove, but I'm telling you the biggest reason is you stick to your plan. You stick to your asset allocation and you stick with the mangers through the ups and the downs. What I have seen happen is the following. What hypothetical other plans do out there, no one in particular, they hire a manger staring January 1st of this year let's say and they base that hiring off of that manger doing well for the last two or three years or some recent period. So, they hire this manger and then inevitably what happens is the following. Manger's returns relative to their peers also go in cycles. It also has a cyclical component. So, what happens is, is often they're hiring the manager at the peak of their cyclical outperformance relative to their peers because they're focusing too much on recent behavior. So, they're buying at the top and for the mangers relative performance. Then what happens is inevitably the rest of the cycle occurs and the mangers start to perform less well against their peers and their strategy is out of favor for a while because that's the way the world works. So, a year or two or three later they fire that manger just at the bottom of its cycle, just in time for it to start to outperform relative to its peers. I've seen this happen over and over again for twenty years. That's what happens. So, at any one point in time other plans out there may in fact have mangers whose rankings are higher than the ones in your plan. They just never got those returns because they got in when they were about to do poorly and they're getting out when they're about to do well. They buy at the top and sell at the bottom. That's what happens. This board doesn't do that. That I believe is the biggest reason why you continue to outperform your peers. We had a rebalancing that we wanted you to vote on today. It was a small rebalancing because we know that sometime in October we're getting the city's contribution when we will be able to have large inflow and true up and rebalance the exposures the way we want. So, we had a $14 million dollar rebalancing away from equity and into bonds. We wanted to do that, but of course it requires a vote so we can't do that today. We will try to do it at the next meeting, but it turns out that the next meeting is September, by the time you vote it and we did it, it would happen in early October and then you're going to have your contribution later on that month anyways. I will go over the numbers at that time, but it may be somewhat of a moot point by then because it was a small rebalancing anyways.

VICE-CHAIRMAN LOMBARDI: Do we have ability to make that payment earlier or make some payments.

MR. PEARIS: I have to look at what our cash flow applications are in the next few months. It's a $58 million dollar payment. So, I would have to look at payrolls and appropriations, what we have coming up to that point. The reason we do it is we have the second quarter tax payments. So, even after that point we're in even better condition. I just don't know if we have over the next six to eight weeks to be able to do it earlier.

VICE-CHAIRMAN LOMBARDI: Maybe that's one of the solutions. Just give them cash. I'm not saying the whole amount maybe half of it.

MR. PEARIS: I don't know if we have ever made a partial payment to the fund.

VICE-CHAIRMAN LOMBARDI: We have in the past. I think it was a $10 million dollar payment early on.

MR. PEARIS: That's something that would eliminate the need to do this because what happens is we get Water Supply Board's money and we get the School Department's money. Then when I think about it we don't have to make the whole $58 million. We can do part of it. We only make only half of the city's allocation maybe $25 million or something like that.

MR. BERTONAZZI: That's fine with us. If you would like to update us on the ability to do so, or any schedule that you would follow just let us know. So, if you could do it maybe for the next meeting. We require a vote for approval of this board to allocate the money to the managers. You can send it to the manger, that's fine, and put it in the portfolio, but to rebalance we still require a vote, but we can do that at the next meeting, so we wouldn't have to wait until the end of October. We can do it at the end of September. It's up to you.

VICE-CHAIRMAN LOMBARDI: Does anyone have any questions? We do not have a quorum today so we can't go into Executive Session if you were planning on doing that. Eric, are you all set.

MR. BERTONAZZI: Unless there are questions that is everything I wanted to tell you today.

The meeting ended at 12:35 o'clock P.M.

Second Deputy City Clerk

Assistant Clerk