

DEPARTMENT OF CITY CLERK

CITY HALL

MARCH 13, 1996

The Board of Investment Commissioners meets this day at 2:00 o'clock P.M. (EDT) in Committee Room "A", City Hall.

Present: Mayor Vincent A. Cianci, Jr., Chairman, Vice-Chairman Boyce Spinelli, Councilwoman Evelyn V. Fargnoli, Chairwoman/Committee on Finance, City Treasurer Napolitano, and Mr. Karl Ericson.

Absent: Mr. Anthony Paolino.

Also present is KC Goss and Eric Bertonazzi of HC Wainwright.

(Helen Gibbons Vieluf, Assistant Clerk/Michael R. Clement, Clerk).

In the absence of the minutes of the last meeting, Vice-Chairman Spinelli informs Chairman Cianci of what occurred at the last meeting held March 8, 1996, wherein interviews were conducted for prospective money managers/fixed income - Loomis Sales, New England Trust, and Boston Partners.

He further informs that there was a unanimous vote to engage the services of Loomis Sales for fixed income in the amount of 95 or possibly over 100 million depending on how the assets turn out, same being invested in fixed income/bonds in liquidity.

Further discussion ensues and Mr. Bertonazzi informs that their performance is superior/beating the index.

Chairman Cianci questions what they will do this year?

Mr. Bertonazzi informs that he expects them to perform as relative to the index as they have in the past.

Chairman Cianci questions how much the index was and Mr. Bertonazzi states that the Government Corporate Index on fixed income Loomis Sales last year was up 18.3 percent whereas the Corporate Bond Index was up 16.5 and that their five year trailing

Chairman Cianci questions what managers did that in the past?

Mr. Bertonazzi: New England Trust, Fleet and the Providence Group all had bonds and also Seix who resigned.

Discussion ensues on the amount of moneys available for the fixed income side - 130 million and 100 million to Loomis and 30 to Fleet and that the Providence Group will no longer be handling the fixed income side.

Chairman Cianci: What did New England Trust do for us?

Mr. Bertonazzi: They did both fixed and equities.

Chairman Cianci: So basically now those two are out of the fixed income business as far as we are concerned. Newman is gone and Fleet basically is gone.

Mr. Bertonazzi: Fleet will keep approximately 30.

Chairman Cianci: What did Fleet do in fixed income last year and New England do?

Mr. Bertonazzi informs he does not have those figures with him but that Fleet's overall return has been less than their index and that in 1994 they lost 10.6 percent on the fixed income side.

Mr. Ericson informs that they lost due to being long when they should have been short on the market value fluctuations and "it is not only yield but market value fluctuations".

Chairman Cianci questions New England Trust.

Mr. Ericson: New England Trust did not give good numbers they gave us fixed income return gross of fees, which is meaningless to us and they had a portfolio of 80 million dollars combined and that portfolio they did not give us total return they gave two components, equity and fixed income, so all the cash that they have had over time it did not bring down the return. I asked them for the number but I don't think they sent them in. You couldn't tell what they did.

Chairman Cianci refers to a communication, of which all members have copies, from New England Trust Company stating that he was doing 17 percent and refers to the fact that they have a local office.

Mr. Bertonazzi further informs that the Providence Group was also was also eliminated.

Mr. Ericson states that we have all the managers to interview.

Mr. Bertonazzi: There was that other option that we presented to the Board was that we not do the indexing in the large cap and the large cap equity index we recommended Fleet for they have an index fund which would have been around 27 or 28 million dollars as well.

Further discussion ensues relative to the last meeting of the Board and an option of three money managers considered for large cap: Fleet, Citizens and the Providence Group relative to equities.

Chairman Cianci refers to the companies being eliminated and the fact that they are local companies, pay taxes and employ people in the City.

He further states that on the Equity Side, Fleet and Providence Group are above the index.

Mr. Ericson questions what index is being used?

Mr. Bertonazzi states: The large cap growth index, the Wilshire large cap growth index. What was over at Fleet in the past which I think was a disadvantage for them was a balanced mandate where they were doing bonds and stocks and they didn't know what everyone else was doing, so it was sort of an unclear mandate and if we were to go forward and give them a clear mandate to just do large cap, let's say,"

Mr. Napolitano: I don't think we addressed that aspect of this analysis I thought we only talked about the fixed income and I thought we were going to go through this peace meal and we did not get to that portion and I agree with you Mayor, we should, the taxpayers, they pay us taxes we do want to address that.

Chairman Cianci: As long as they perform. I find it difficult to sit here as Mayor and preside over the pension systems move outside of the City of Providence when, if we only stop to look and listen...that you have some funds here that are being administered by some local people who are exceeding the index and if we did that it would be a disservice to the City. If they are performing equally or doing better...

Mr. Ericson: If we can find a company that has a better track record over time they might be paying taxes, but you are losing yield.

Chairman Cianci: Not according to this.

Mr. Ericson: That's the index, but there are people beating the index much better than these. Wainwright has come through with all of these people... recommendations. We hire Wainwright and they give us a list of people to talk to and none of these local people filtered to the process. We paid them to do this.

Chairman Cianci refers to the value pack.

Mr. Bertonazzi: The reason I think if you look at the returns, that the fund has experienced are not the same as that because they weren't doing that style, they were doing a balanced style with different managers. The fellow who runs that value pack index is not the same guy who was running the portfolio in the past, etc. So, I think that part of the reason that it was confusing was that they had a balanced, instead of a clear cut mandate. So, if you did go with the other option in keeping these local folks in there, I would recommend, instead of the indexing option I would recommend a clear mandate. You do this and you do this and it will be a lot easier to monitor and a lot easier on them to do a better job for you as well.

Mr. Napolitano informs that was his understanding.

Mr. Bertonazzi further states that the only indexing that was discussed would be in indexing to Fleet in equities, large cap equities like the S & P 500 so you have

MARCH 13, 1996

an option of indexing all of the large cap with Fleet or, breaking up that large cap portion among the various managers...

Mr. Spinelli informs that in addition to that "Fleet will have about 30 million of fixed income and wants to make sure that we are talking about ...Fleet is already in the fixed income side the short term. In addition to that, if we went indexing it was going to be through Fleet's Galaxy Fund, so in total there was about 55 million so we thought that we were being cognizant of the need."

Chairman Cianci questions how the Providence Group has performed and Mr. Bertonazzi informs "more risk but beating the index, solid returns with more risk".

He further questions how the drop in the stock market last Friday affected the Pension Fund?

Mr. Bertonazzi: I went back up Monday so..but if it did not go back up there would have been a loss of about 3 percent in equities....

PRESENTATION - DIMENSIONAL FUND ADVISORS, INC. - VALUE STOCK STRATEGIES.

Present at this time is Mr. Weston J. Wellington from Dimensional Fund Advisors, Inc., of Santa Monica, California and submits a brochure and explains same to the members present. (See brochure in the Dept. of City Clerk).

Chairman Cianci questions Mr. Ericson's opinion and he informs that he likes someone to research on stocks which they do not do and finds it too mechanical.

Mr. Wellington in closing states: "Dimensional was founded for the purpose of trying to help investors achieve the rates of return they are entitled to in Capital Markets and it is very clear to us based on abundant studies that even if there are lots of money managers who have a great return to beat indexes, you don't find many investors whose results beat indexes."

Chairman Cianci questions if hired who would be the representative and Mr. Wellington informs he would be assigned to the Board.

Mr. Wellington informs that it would be a relationship that goes beyond purely business, that is more of an educational dialogue and the more they educate their clients about how the company runs, the more successful they can be.

PRESENTATION - KOPP INVESTMENT ADVISORS. (SMALL TO MID CAP).

Mr. John S. Hughes, Vice President/Director of Client Services together with Sally A. Anderson, CFA Senior Vice President/Portfolio Manager are present this day and presents a brochure to the members. (See booklet in Dept. of City Clerk).

Discussion ensues on the market and the small cap investments and Mr. Hughes informs that "if you look at 1994 when all of the indexes were about flat and if you took the dividends out of the Dow the S & P was negative, we were up 26 percent. So, in flat markets we shine because we have great companies and people will buy good companies in the flat market."

Ms. Anderson: That's when the stock selection really comes to the core and that's what we think that we do well.

PRESENTATION - PIONEERING MANAGEMENT CORPORATION - VALUE SMALL CAP.

Mr. Warren J. Isabelle, CFA Director of Research and Dayna Grant Vice President/Director of Institutional Marketing are present this day and submits a brochure to all members present and explains same. (See brochure in Dept. of City Clerk).

Mr. Isabelle states that he wants the members to be clear on the fact that they are stock pickers and they do not have any portfolio theory.

PRESENTATION - MCKINLEY CAPITAL MANAGEMENT, INC. - SMALL CAP.

Mr. John A. Hauswirth, Institutional Marketing Director and Christopher J. Guptill, Portfolio Manager of McKinley Capital Management, Inc., are present this day for discussion and submits a brochure to each member present and explains same. (See brochure in Dept. of City Clerk).

Chairman Cianci informs the members that Board has to make two choices to make relative to small cap advisors.

Mr. Bertonazzi informs "...a small mid cap growth decision...that's Kopp,

Mr. Ericson questions the allocation and Mr. Bertonazzi informs that it is 11 percent which is about 30 million or so depending again on how the assets perform this quarter.

Chairman Cianci questions who does this for the Board now?

Mr. Bertonazzi informs no one does it now, no small cap growth.

Discussion ensues on who did the small cap previous and that no one has that as a class same being in the asset allocation policy now with the Board.

Questioned as to whether or not he knows of any of the Investors previous to this meeting, Mr. Bertonazzi informs that he does not but is familiar with the founders of the firm of DFA he having studied the firm and their behavior for years and knows of their process.

Mr. Ericson: Pioneer and Dimension, the two value managers, one was total research and they dug into it and went out and kicked tires and Dimension, they use a computer program. They are diametrically different.

Mr. Bertonazzi: Yes and that is one of the reasons that I put both of them in there.

The members agree that they feel more comfortable with Pioneer.

Discussion ensues on the companies and their presentations made this day.

Chairman Cianci questions who the two competing firms are.

Mr. Bertonazzi: Kopp vs MacKinley and Pioneer vs Dimension.

Discussion ensues.

Mr. Ericson informs that MacKinley does not leave their office they only come out for presentations and don't kick the tires.

Mr. Spinelli informs "in the first one and I'm taking a little cue for Karl he thought that Dimension was too mechanic although it works but they put more research into their methodology as opposed to the stocks. Who was better in their performance Dimension or Pioneer?"

Mr. Bertonazzi: Very close.

Mr. Spinelli: I would probably be happy with either one of them but I liked the people who would go with the bottom up approach where they get to know the company.

Mr. Napolitano: We are not relying on them to give us our cash flow hopefully. We are relying on them to be the builder and that is why I am not that concerned about turning it over and I like the approach where they analyze the stocks, etc.

Chairman Cianci questions today's allocation.

Mr. Bertonazzi informs that "it would be a little over 40 in the value and about 30 or so in the growth."

Discussion ensues and Mr. Bertonazzi informs that he will be monitoring the managers and will be receiving a quarterly consolidated report.

Chairman Cianci questions Mr. Bertonazzi's opinion of the four managers this and Mr. Bertonazzi informs "if I had to I would choose Kopp over McKinley although...going forward...and if I had to the Pioneer DFA choice would be much harder for me. With DFA you know exactly what is going to happen forever, and ever and ever. If that fellow sitting here, Weston Wellington, if he dies, nothing happensif Lee Kopp goes down or if Sally leaves or something, that is something like a managerial risk with Kopp. With Pioneer, if Warren Isabelle

MARCH 13, 1996

goes down, he is the investment mind, he drives the returns over there, there's no question about it great manager, he's the decision maker. I recommended their mutual funds which Warren runs as well to other folks who don't have as much money....private management.

That choice would be very difficult for me the DFA Pioneer Fund because I think they are both very true to their style and I think they will do about the same across time. Pioneer their style is very value...they are from Boston and Dimension is from Santa Monica, California and MacKinley is from Anchorage and Kopp is from Minnesota.

Discussion ensues among the members at this time.

Mr. Bertonazzi further informs: "the other thing to remember about MacKinley and Kopp is that MacKinley will have a little volatility as those returns show because they are in and out and they are the "weather the storm" attitude. Kopp believes in their picks and they don't care if they lose ten percent in a quarter because they believe that it will come back and their history shows that they are right. So, when Kopp comes and earns 20 percent for you in a quarter, that doesn't mean that Eric is a genius and when they lose ten percent a quarter that doesn't mean that Eric is a knuckle head either. That's going to happen across time. But, that's what is so good about having the ability to not having to worry about dipping into those assets. We can sustain that volatility and that's what we are getting paid for."

Accordingly, on motion of Mr. Napolitano, seconded by Mr. Ericson, it is

VOTED: That the Board of Investment Commissioners retain the services of Kopp Investment Advisors for the Growth section of the Portfolio and that it is further

VOTED: That the Board of Investment Commissioners retain the services of Pioneering Management Corporation for the Small Cap section of the Portfolio.

All members in favor with the exception of Chairman Cianci who desires to be recorded as "Not Voting".

Commissioner Paolino - absent.

The members proceed to address the Custodian Section.

Mr. Bertonazzi informs the Members that he has meetings scheduled for the International Managers - the equity and the bonds.

Mr. Ericson states that we have to talk to Fleet.

MARCH 13, 1996

The members agree to have Citizens, Fleet and The Providence Group appear at a scheduled meeting of the Board for a presentation.

The only items left for discussion now being the International and the Large Cap.

Mr. Bertonazzi informs that the Large Cap is 18 percent about 50 to 55 million. He further states that the International is 8 percent in equity which will be around 20 to 23 million and 3 percent for the international bond which will be 7 or 8 million.

The members agree that the foregoing be discussed at the next meeting of the Board.

HIRING OF CUSTODIAN - STATE STREET BANK.

Accordingly, on motion of Mr. Napolitano, seconded by Councilwoman Fagnoli, it is

VOTED: That the Board of Investment Commissioners retain the services of State Street Bank for the Custodianship.

All members in favor with the exception of Chairman Cianci who desires to be recorded as "Not Voting".

Commissioner Paolino - absent.

Mr. Bertonazzi informs that in about two weeks he will be ready to have two equity managers and two bond managers make their presentation to the Board for the International section of the Fund.

Mr. Spinelli is requested to inform the Assistant Clerk of the next scheduled meeting.

Further discussion ensues among the members.

Accordingly, on motion of Mr. Napolitano, seconded by Councilwoman Fagnoli, it is voted to adjourn at 6:00 o'clock P.M.


ASSISTANT CLERK


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