

DEPARTMENT OF CITY CLERK

CITY HALL

DECEMBER 2, 2010

The Board of Investment Commissioners meets this day at 2:30 o'clock P.M., in The Conference Room, Third Floor, City Hall.

PRESENT: Vice-Chairman Richard Kerbel; Stephen T. Napolitano, City Treasurer, Councilman John J. Igliazzi and Myrth York – 4.

ABSENT: Mayor David N. Cicilline, Aaron Simon and Ted MocarSKI – 3.

Also present are Eric Bertonazzi, Wainwright Investment Counsel LLC; Jeffrey D. Fabrizio, Wainwright Investment Counsel LLC, Ken Chiavarini, Senior Assistant City Solicitor; Lori L. Hagen, 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 THE MOTLEY RICE PORTFOLIO MONITORING REPORT

IV DISCUSSION AND/OR DECISION RELATIVE TO CHANGE IN ASSET ALLOCATION

VICE-CHAIRMAN KERBEL: Okay. Who is giving the presentation from Wainwright?

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MR. BERTONAZZI: I will start. Thank you. In keeping with our custom, the first thing I will refer to is our flash report, which is the top page of what we have given you all. You should all have a copy of it in your pile of documents there, and for the benefit of the newest member of the board, what we have done traditionally at the request of this board is to come every month and give what we call a flash report, and that is an estimate of where the plan stands as of a day or two before we get here. So, it just so happens because of the odd scheduling time this month we're normally the fourth Thursday of the month, but that was on Thanksgiving. So, we did a flash through Tuesday, which happened to be the end of November 30th. So, in the various columns there you can see the following. If we cut to the chase, in the month of November we're estimating we lost .7%, about 70 basis points. We're estimating therefore that we are up 9.3% year-to-date as you can see there in the year-to-date column. By way of comparison, the S & P 500 was flat for the month and is up 7.9% year-to-date, which we are beating. Now, just by way of color, the last two days have been very large up days. Yesterday the market rallied very substantially and it's up again substantially. So, if you said, gee Eric, what do you think beyond this paper, I would say we're up around 11% or so year-to-date right now. The market is up 3% and in the last two days we probably captured a very large portion of that. So, I suspect we're up in the 11% range, but anyways there is your flash. We break it down into our various equity managers domestic and international. We break it up into our fixed income managers domestic and international. We have some private equity, we have some hedge funds. You can see what they've all done for the month-to-date time period, which happens to be this month coinciding with essentially an entire month. You will notice that the international managers, both Brandes on the international equity side, which was down 7.8% in the month, and the international fixed income manager Rogge, were down a lot. That does to two things. Europe is struggling with sovereign debt crisis again as we speak and the dollar has been

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strengthening and those exposures are un-hedged to the dollar. So, most of the time when the dollar weakens that is in our favor by strategy, by choice for those managers, but that's where we're suffering at least in the last month. Although it's very small relative to the portfolio, and we're still up far more than the 100% equity benchmark, which is the S & P 500, and I also predict that when you see your next set of rankings, which will come out. So, we have four more weeks left to the quarter for the month of December and the calendar year you will get rankings sometime in February and I predict you will be very highly ranked again relative to your peers. I also predict you will beat the State of Rhode Island again which I know is important to this board. You do that pretty regularly and I predict that you will do that again. Lately, the equity market has been volatile very recently again, down a little bit in November, but up very big in the last couple of days. It is based on several things. You all know how the elections turned out. The President's commission on debt is voting and making some recommendations to Congress and it looks like some of those things are getting traction from both sides of the aisle. So, the global market place is happy to hear that, but of course it's one of those situations where show me the money and actually do what you're saying you're going to do, but there has been a little progress made there and the markets like that. In Europe, maybe in the last day or two, is showing some signs of settling down a little bit with some more government intervention in various kinds perhaps even the ECB, the Central Bank of Europe intervening. In any event we're having a strong year. Again, 9.3% through November and probably as we speak well over 11%, which is high in an absolute sense and in a relative sense. Again, I reiterate, I predict you will do very well against your peers this year. This flash that you see here in front of you takes into account that fact that the city made another contribution to the portfolio. The city contributed in one form or another about \$18 million, only \$12 million got to the portfolio as the note down at the bottom in the right hand corner shows net flows into the account month-to-date

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\$12.9 million. That's because on a monthly basis we're burning \$6 million dollars a month for benefits. So, instead of taking all \$18 million dollars, sending it to Loomis Sayles, our bond manger, and then the next afternoon asking for \$6 million back, the city just left \$6 million in the cash account and paid it directly from there. So, almost \$13 million dollars flowed into the account as the note shows based on the last contribution from the city and following our standard procedure and our investment policy those monies were sent to Loomis Sayles, our bond manager. As you can see, we've gotten our fixed income allocation back up to 23%. Our longer term target is up for discussion right now. Will it be 29% or 34% or 31½%, currently that is the case. That is an up-to-date figure. I do not know if the city plans on making any more contributions in the very near future. I will hold that aside when we get to the possible asset allocation review and rebalancing, which of course would be a function of that.

VICE-CHAIRMAN KERBEL: There will be no more contributions this calendar year.

MR. BERTONAZZI: Last year we got some money in the first quarter, which was somewhat unusual. Do you know if that may happen again?

VICE-CHAIRMAN KERBEL: It hasn't been decided yet, but last year you got money from the schools of \$7 million, which was really the prior year's contribution and \$15 million from the city and that was both in the first quarter. All I know is that we are not going to be making anymore contributions this quarter.

MR. BERTONAZZI: Okay. Thank you. That subject will come back up again later on any potential rebalancing. I would pass along some comments. You will see our equity managers are really doing very well this year. If you go down about six, seven or eight lines from the top I would bring your attention to the Vanguard mid growth ETF. That's an exchange trade fund. It's essentially an index fund. It's passively managed. It's very cheap and it's up 21.4% year-to-

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date. It's doing very well and the Russell 2000 growth index is up 20% year-to-date. That also is passively managed. So, that's helping us a great deal this year and as you can see also Boston Partners on the mid cap value side and the small cap value side are also helping us a great deal. They're up almost 16% and 13% year-to-date. Again, somewhat dated numbers. I suspect they're up several percentage points more just since Tuesday when we ran this given the rally in the last couple of days. That's really been helping us. Our large cap equity not going up as much as small cap, but in line with their industry and what others are doing also helping. Again, international manager Brandes actually negative and much of that is currency, but also the European crisis. Brandes, however, has been our single best manager over the years and by far outperforming everyone, but nonetheless we have seen that from time-to-time the portfolio components diverge meaningfully in terms of performance. I would also point out Loomis Sayles a few lines down our domestic bond manager is having a very strong year again, up almost 9%, 8.9%. Now remember that's a short to intermediate term bond manager, so short duration. It has credit exposure in there of course. That's a very strong year for our bond manager and again that's probably up another percent or so just since we ran these numbers, but again doing very well. Rogge, the international bond manager, again being hurt by currency appreciation, but still up nicely at about 3% year-to-date. I would move down to the bottom of the page to point out our hedge funds, which are also helping this year especially Renaissance Institutional Equity Fund up 17% year-to-date and actually I predict another percent or two since we ran this. So, we're getting the benefit of our diversification. Our asset allocation is working. We have refreshed our bond exposure based on the most recent city's contribution, but we're still ready and prepared to meet \$6 million dollars a month on average for benefits and of course that subject would come up again more in the later part of the meeting. Good volatility in the markets, Europe especially. The U.S. economy is strengthening,

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the numbers have been coming out better and the market is liking that. GEP is come out better than expected, retail sales are better than expected, manufacturing is better than expected. Even jobless claims are coming in a little bit better than expected, but the most stubborn of all the unemployment rate is not moving and that's the thing that politicians and the Federal Reserve are most interested in addressing and that's been quite stubborn and I predict it will continue to be stubbornly high even as the economy continues to recover and even as corporate profits earnings continue to surprise on the upside and your portfolio and your managers and stock markets reflect that unemployment is going to be very stubborn. That's the last thing to get better actually. Questions on the discussion of the flash report? Okay, that's what I wanted to cover. Shall I move onto the Dexter Donation Fund.

VICE-CHAIRMAN KERBEL: Sure.

MR. BERTONAZZI: Your other books in front of you, your thinner black books refer to the other accounts, which this board has purview over. They are the Dexter Donation Trusts and the Board of Investment Commissioners various trusts, Charles Smith and Edward Ely. Again, for the benefit of the newer members on the board, if you turn to tab one, page one, we will start with the Dexter Donation Trust. You will see what it's doing through November 30th as well. It's up 8.9%. A little bit less than the overall plan, than the big pension plan. That's because it's too small to have hedge funds and other types of things like that and private equity in there, but I suspect it's also rallied strongly in the last couple of days. The other tabs will show you what the other trusts have done. Ebenezer Knight Dexter and the City of Providence, they are all managed essentially the same. So, you will see that they're numbers are virtually identical. The only differences would be from funding needs. From time-to-time the various funds and other representatives of the portfolios, which are under the purview of this board come and ask for money to spend and they take various differing amounts from these differing trusts. So,

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that's what leads to the small differences in return, but you will see they are all up in the 9% range year-to-date.

VICE-CHAIRMAN KERBEL: What is tab three?

MR. BERTONAZZI: These are the City of Providence Board of Investment Commissioners portfolios and there are several different trusts and portfolios within it. If you look to page two of tab three, you will see them. We have listed for your understanding, we provide you this, which shows spending outflows and the spending authority. For example, on the North Burial Ground you will see that the spending authority is the Parks Commission. For the Anna Mann Trust, it's the Parks Commission. For the Water Works Department, it's the Office of the Treasurer, etc., and you can see what their balances are across time and spending flows up to the most recent estimate are. We feel this is helpful to understand what's in there, but they are all consolidated under one portfolio, if you will, and they have ownership of them and that's how they were when we received them many years ago, so we continue with that practice. It allows you to see what each one has and how they are performing and how they are spending.

VICE-CHAIRMAN KERBEL: Do you want to move onto the next one?

MR. BERTONAZZI: There is nothing I have to say about item three, the Motley Rice Portfolio. That's outside of our purview.

VICE-CHAIRMAN KERBEL: Okay. So we don't have any update on the Motley Rice Portfolio? Who normally provides that?

MR. BERTONAZZI: They provide it to the city. Bruce had been handling that. They just sort of monitor the portfolio.

SENIOR ASSISTANT CITY SOLICITOR CHIAVARINI: You have some work now, Richard. As a result of coming to the meeting, you have some work to do now for next month.

MS. HAGEN: It was presented to the board several meetings ago by Mr. Miller, and there was no discussion. We didn't have a quorum and then Mr. Miller

left.

VICE-CHAIRMAN KERBEL: You don't want any discussion and/or decision relative to change in asset allocation.

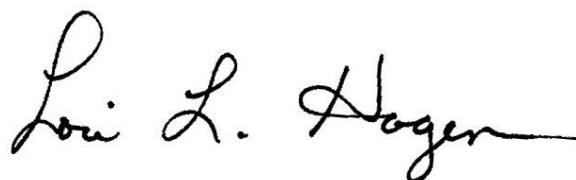
MR. BERTONAZZI: This board requested from us at the previous couple of meetings to prepare some additional work as discussion material to consider any potential change in the asset allocation, which we are prepared to go over again if this board would like us to. We have the documentation and the information.

COUNCILMAN IGLIOZZI: You can't vote on it.

VICE-CHAIRMAN KERBEL: I need to meet with you anyway Eric after this meeting so maybe you can brief me. I think we will take it up at the next board meeting. Okay, I don't need a motion to adjourn because we don't have a quorum. Is there anything else you wanted to say?

MS. HAGEN: You can just say that the next meeting is going to be January 27th. It is the fourth Thursday of every month at 2:30.

There no longer being a quorum present, the meeting ended at 3:00 o'clock P.M.



Second Deputy City Clerk



Assistant Clerk