DEPARTMENT OF CITY CLERK

CITY HALL

OCTOBER 25, 2012

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, City Treasurer; Michael Pearis, Finance Director, Councilman John J. Igliozzi and Mark Tracy – 4.

ABSENT: Mayor Angel Taveras, Aaron Simon and Ted Mocarski – 3.

Also present are Kenneth Chiavarini, Senior Assistant City Solicitor, Law Department; Eric Bertonazzi, Wainwright Investment Counsel LLC; Jeffrey D. Fabrizio, Wainwright Investment Counsel LLC; Anna M. Stetson, 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 AND/OR DECISION RELATIVE TO THE REBALANCING OF THE PORTFOLIO.

VICE-CHAIRMAN LOMBARDI: Okay, let's go to item one, Recent Performance Estimate.

MR. BERTONAZZI: Thank you. The easiest place to start is your one page flash report entitled current investment position and performance estimate. I will give you an update. The most up-to-date possible for us, which is as of a couple of days ago. To cut to the chase, we're having a strong year. We're up 9.7% year-to-date through that time. I think you will find you will be highly ranked were the year to end today or the other day, I think you will find you will be quite highly ranked again. One thing to notice, and I will go through the sections here for you, domestic equity is performing very well. On average it's up almost 15% year-to-date. You can see what the numbers are there. They're all clustered in the low to mid teens. Our value managers are adding a little bite more on the small cap side this year relative to the growth and on the large cap side there is not much difference. Large caps are having a better year this year. Very recently the market has been selling off, and I will start to talk to you about that. I did want to point out if you look at Brandes, our international manger, up 8.3%, that's fine. There is nothing wrong with that, but clearly underperforming the United States. That's mostly explained by the turmoil in Europe and also Asia. The U.S. markets have for the most part outperformed the other markets and have far less volatile especially then Europe.

COUNCILMAN IGLIOZZI: Mr. Chairman, can I ask a question.

VICE-CHAIRMAN LOMBARDI: Yes.

COUNCILMAN IGLIOZZI: The reason why is because they feel it's safer here is that why? Is that's what going on. Like they're trying to find a safe harbor.

MR. BERTONAZZI: That's part of it, yes. People tend to run to the dollar, U.S. Treasury Markets, U.S. Equity Markets even when that happens so that part of it. Also, we just had better economic growth even though it's been pretty anemic it's been better than Europe, which is essentially flat on it's back. So, that's been part of it has well.

COUNCILMAN IGLIOZZI: Thank you.

MR. BERTONAZZI: Our bond managers are doing very well, Loomis is up 5½% year-to-date, which will come up for more discussion when we get to our next section, but that's pretty good. You have to remember that's sort of a short to intermediate duration mostly investment grade fixed income. There is a small section of high yield in there, but 5½% that's a pretty good year for that type of strategy. Rogge, our international bond manger doing fine as well. Remember there though as this turmoil across the globe occurs that tends to strengthen the dollar verses other currencies, as Councilman Igliozzi was pointing to, as a flee to us. So, if the dollar strengthens, which is has recently, somewhat, not a lot, when you translate those holdings back into dollars you're going to get a lower return although that's been fine as well. Our hedge funds have been adding value as well, very low risk. On the first two lines here, Graham Global, it's a low risk play. I think I would like to see that up a little bit more. Maybe a percent or so, but nothing meaningfully. Our fund to funds Quellos is having a very good year, actually relative to other fund to funds that's pretty good. Most of the other fund to funds are sort of in the 4% range year-to-date, and Renaissance continues to add value. That's a long/short U.S. domestic equity as you may recall and they've had pretty strong performance for us in the last two or three years and it's something I'm pleased with. So, overall up 9.7% that's a pretty good year especially for what we've gone through. It's been a volatile year. I think you're going to have to be prepared for more volatility like right now the markets are starting to turn a little attention, not all of it, but a little of their attention to away from the European debt crisis, which has at least for while stabilized. They bought some time especially what the ECB did, but they're staring to turn back to the U.S. Earnings and revenue for the third quarter, the S & P 500 and throughout the U.S. markets have weakened, flat to down actually year over year. We will see where it ends up when we get all of the reports in and some of the reports of recent days and recent weeks have been disappointing even less than the lowered expectations. So, everyone sort of expected sort of weakness in these results and they're even a little bit more weak especially on the revenue side. So, the economy is just sort of anemic right now. We had 1.3% growth rate for the final revision in the second quarter. It's probably going to be a little better than that in the third quarter, but maybe not a lot. Maybe it's 2%, maybe it's 1.7%, maybe it's 2.1%, maybe it's 1.8%, somewhere around there. That's not good enough to bring the unemployment rate down to grow revenues in the market and for the portfolio that you're concerned about. It's just not very good right now. Additionally, you have the election uncertainty. The markets are very focused on that and how that will impact especially the fiscal cliff that you hear about all the time in the news. If, just by way of some numbers here as many of you may know, but good to rehash it. If all of the things scheduled to either expire or change on January 1st occur, it's well over $600 billion dollars in hits to the economy. So, all of the Bush tax cuts are scheduled to expire. Expensing on business investment, which was at 100% temporary is at 50% now and it's due to go to zero. Extended unemployment benefits are due to expire. The sequestration, the extra spending cuts from the failed super committee of a while back. That adds money and then of course there is the temporary cut in the FICA tax and the payroll tax withholding of 2%. That's 110 billion to 120 billion probably. Add it all up you're well over $600 billion, which is approaching approximately 4% of GEP. So, if all of those things where to occur. All of those spending cuts much of it in defense as well and all of those tax increase that would be a pretty big hit. Well, that fiscal drag. That's why they call it a fiscal cliff and if all of those things happened for any amount of time we would have another recession without a doubt. The other areas of the economy that are doing okay could not overcome that and we would have at least a temporary recession. Who knows maybe worse depending on what would happen.

COUNCILMAN IGLIOZZI: So, you're saying if all those things do come to fruition expire January 1st or portion of them it's not a good thing. I hear the political dialogue. You hear one group saying you need to get rid of them and the other group says to keep them. So, I'm kind of confused here, but it sounds like the real financial reality is you actually need to keep them.

MR. BERTONAZZI: I think what the markets would like is a little of both. They would like not the full fiscal cliff to occur, but they would like to slowly walk back the deficit across time. So, I will get to sort of what I think the political realities are and what's going to happen. The markets definitely do not want the entire fiscal cliff to occur, but they may be willing to have some of it. What they really want is a plan. A credible plan, a credible path for both sides to comprise on and to agree on that sets the economy and the perception world investors that, okay, the United States has got its act mostly under control here and they're going to slowly get back to something more sustainable. What we have right now is unsustainable in the long run. That's undoubted, that's indisputable. We can keep up what we're doing. So, how do you get there? Well, it depends on who wins these elections. It seems that President Obama is still a slight favorite to win although the race has tightened a lot. It looks like the democrats will probably hold on to the Senate, but they will lose seats. It could be maybe a very slim majority. It looks like the Republicans will gain at least one or two, perhaps it's more, perhaps they take the Senate, but the odds are more closely clustered around very close to 50/50 or something like that and the Republicans will probably lose some seats in the House, but maintain control. So, either way you're going to end up with a divided government. Now, if Romney were to win we would still not have a mandate or even probably not have control over the Senate, but the markets are very focused right now on what happens during the lame duck session after the elections. What do they do? Do they bicker and yell at each other and do nothing and we fall completely off the cliff. Do they play brinkmanship and do something at midnight on December 31st. Do they cut a deal earlier. Do they let us partially go over the cliff and sort of half punt and say we're going to do something by

February, March, April or June or something like that, or do they take a full punt and just sort of mostly do what we're doing already for another six months or a year while the new Congress, the new Senate, the President or the re-elected President fight it out.

MR. PEARIS: What's the recommendation of the Fed Chairman in terms of the fiscal cliff? Any recommendations.

MR. BERTONAZZI: He strongly recommends we do not go over the fiscal cliff. So, we have to cut a deal.

MR. PEARIS: The likelihood of the cliff is possible, the reality is the markets won't allow it and the Feds don't want it to happen. It seems like we're leaning towards fixing what needs to get fixed in order to not have the fiscal cliff.

MR. BERTONAZZI: My own guess is that the likelihood is, is that I think the thing that's least likely to get renewed is the temporary payroll tax cut. That's the one that both sides are willing to let go. So, that's not nothing. That's a $110 billion to $120 billion, and that's three quarters of a percent of GDP or two thirds of a percent. The other stuff I think most likely will get extended in one form or another, punted on if you will. Either during the lame duck or shortly thereafter the markets have interpreted that it's in neither sides political interest to let the worst occur. That's the point I think and that's why markets haven't really focused on this lately. They've been acting as if something as least minimally acceptable will be determined somewhere before it hurts to much.

MR. PEARIS: We're not going to wake up on January 1st and have a financial system in ruin.

MR. BERTONAZZI: You never know. One or both sides could just be intransigent. I don't know. So, there is some possibility of that, but markets act if that's not the likely outcome.

VICE-CHAIRMAN LOMBARDI: If we go over the cliff, what are we looking at, 2,000 points on the DOW or are we looking at worse?

MR. BERTONAZZI: It depends. To answer your question. What is the markets interpretation for how long we go over the cliff. Do we go over it for a day or a week or a month or do they just come to a conclusion and say they these guys just aren't going to comprise. They will blame one side or the other or both. So, if markets can be convinced that most of the entirety of the fiscal cliff are going to be taken, the markets would not like that at all and you're talking probably at least 10% on the markets on the sell off at least on a temporary basis. I think both sides would get blamed to one degree or another, which is why the markets interpret that after a long match do at least something. We will see. It's not guaranteed. So, these bad outcomes at least have a possibility.

MR. PEARIS: So, to bring it back to our $242 million and I know we're going to talk about rebalancing, but I think the rebalancing is not based on the economy or sort of where the market is. This is based on where we should be just in terms of a municipality in a balancing portfolio.

MR. BERTONAZZI: Yes.

MR. PEARIS: Are there directions. I mean we let the SSGA Russell 2000 do what they need to do in order to manage the portfolio. We don't tell them sit in cash, go fixed, leave things alone and we will tell when to get back in. We don't make that kind of call.

MR. BERTONAZZI: We don't do that, no. Would you like to go to the next part or do you want to do this first.

VICE-CHAIRMAN LOMBARDI: That's fine.

MR. TRACY: I just have one question. I haven't been looking at it for to long, but I noticed that our trusts are managed in different assets, which are as I understand it more low cost management structure like ETF style.

MR. BERTONAZZI: There are some, yes.

MR. TRACY: It looks like the performance between the two has been about 1,500 basis points or kind of in that neighborhood at least in the time I've been looking at. So, the trust returned well like 11%.

MR. BERTONAZZI: You're talking about the smaller portfolios.

MR. TRACY: So, I'm just questioning if we're getting the bang for our buck in terms of the additional fees that we're paying in this portfolio against the smaller portfolios and the spread between those.

MR. BERTONAZZI: Now I understand your question. In my opinion it has nothing to do with the fees. It has to do with the asset allocation. The smaller portfolios have no hedge funds and nowhere near the liquidity requirements that we have for this big one. So, those are 80/20 equity fixed income and this is sort of 70/30 equity fixed income, but another big chunk is in low risk hedge funds as well. So, the portfolio asset allocation are different enough to completely explain the differential and the performance that you see.

MR. TRACY: Got it and when you say low risk hedge funds what is that?

MR. BERTONAZZI: Renaissance has some risk, but the other two are quite a good bit low risk. So, there is another almost 7% of the portfolio.

MR. TRACY: What assets classes are they investing in that make them low risk.

MR. BERTONAZZI: Graham is suited for a 6th standard deviation and they stick pretty close to it. They will use all future commodities, currencies, equities and fixed income. They're very broadly diverse sort of mixed with systematic and fundamental.

MR. TRACY: What are their return goals?

MR. BERTONAZZI: It's high single digits, something like that and they've made those across time, but again very low volatility. As a matter of fact I will be glad to give you the returns history if you would like to see it. We will show you the entire history of what they have. Quellos is a fund to funds, very broadly diversified, which as a pretty good track record. Those are in the high single digits as well. Renaissance is a higher return expectations product, equity like returns. As a matter of fact its stated goal is to beat the S & P 500 across the long run. Highly diverse. Maybe sometimes a thousands longs and five hundred shorts, very model driven, quant driven, system driven, but the average holding period is over a year, which is unusual. So, it's not a high frequency trading operation or anything like that and it's had some pretty good returns for us across time as well. It's done what it's suppose to do. It's beating the S & P pretty well, but wit lower volatility.

MR. TRACY: Thank you.

MR. BERTONAZZI: Any other questions?

MR. PEARIS: We're planning to make the $48 million dollar arc payment within the next week or so. I'm not sure if that's going to impact the rebalancing.

MR. BERTONAZZI: We spoke to Mr. Mancini and if you would like to move onto the sheet I can answer your question.

MR. PEARIS: Okay. Mark, Larry Mancini is the Deputy Finance Director and he manages, along with the Treasurer's Office, he manages our cash and our budgeting. So, he kind of oversees that piece. Just so you will know who that is.

MR. BERTONZZI: He actually said he thought the money might be being deposited Friday as of tomorrow, but it doesn't matter for our rebalancing decision if it is in fact not tomorrow.

MR. PEARIS: When did you speak to him?

MR. BERTONAZZI: Two days ago.

MR. PEARIS: Yesterday was our second quarter tax deadlines. So, his expectation on Friday was assuming that we had everything locked, loaded, counted and deposited and figured out exactly where our cash position was. They may go into Monday or Tuesday of next week. We were told by our Tax Collector that he will try to have everything again counted and all the dollars and cents counted by Friday. That's his target. So, it may go into Monday.

MR. BERTONAZZI: That should have no effect on what we're presenting to you.

VICE-CHAIRMAN LOMBARDI: Are we going to number two?

MR. BERTONAZZI: Whatever your preference it.

VICE-CHAIRMAN LOMBARDI: Is that the next one?

MR. BERTONAZZI: If we go to the rebalancing spreadsheet we would skip to number three I guess.

VICE-CHAIRMAN LOMBARDI: Do you want to quickly go through two.

MR. BERTONAZZI: It sort of gets to Mark's question anyway. If you look at your smaller black book, it has the performance for the smaller trusts that are under your investment purview; The Dexter Donation Trusts, the Ely Trusts, the Hinklings, the Bradfords, all of them. So, if you turn to tab one, page one, you will see the Dexter Donation trust. That happens to be up 11.4% year-do-date and as I was saying earlier that's sort of an 80/20 portfolio. It doesn't have any hedge funds in in because it can't, it's to small. All of these portfolios are to small. So, given what our asset allocation planning has been across the years, the liquidity needs, etc., these portfolios are all essentially designed to spend 3% to 5% per year on average and that's worked out pretty well over the last decade or more that we've been doing it. Some of these portfolios have spent more then others, but here you have the date. You see Dexter is up 11% through the 22nd. Again, more equity less fixed income and no hedge funds and as you go through the others, if you look to tab two, page one you will see Ebenezer Knight is up 11%. If you went to the other you see 11½%. There are some differences based on spending differences, etc. when money is taken out and that type of a thing, but across time they're all going to behave pretty similar and I have no changes or recommendations for you today with regards to those accounts.

VICE-CHAIRMAN LOMBARDI: Does anybody have any questions on number two? Okay, we can move to number three.

MR. BERTONAZZI: If you look at the two single page handouts we gave you, you will have a spreadsheet entitled portfolio rebalancing and we've also given you a verbal or a letter summarizing verbally what this spreadsheet shows.

VICE-CHAIRMAN LOMBARDI: Eric, do you mind if we just enter these into the record as exhibit one and two.

MR. BERTONAZZI: Okay. So, if you look at the spreadsheet and/or the letter, I suppose I will look at the spreadsheet first. If you see in the pending appropriation column we're showing an influx of $38 million to Loomis Sayles. Now, our standard operating procedure, which we have adopted over the last fifteen years is to take the city's contribution when it comes once a year and replenish our domestic fixed income manager, which acts as the liquidity reservoir for the plan. So, every month when we get a call or a note from the city we need X million dollars this month, it comes out of Loomis Sayles. So, it tends to burn down the percentage of the portfolio that is in fixed income across the year and from time-to-time I make portfolio recommendations to do rebalancing recommendation and this is another. Now, we have two moving parts here. One, we had been told by Mr. Mancini in the Finance Department that we're getting $48 million dollars. As you can see here we're only showing $38 million in the portfolio, why? We're also told that any day now as much as $10 million dollars will be coming out for benefit payments and perhaps some other one time makeups having something to do with the Water Authority. So, we're acting as if $10 million is about to go out the door. We've also been told after that the monthly burn rate will go back down to seven million per month. Again, according to Mr. Mancini. It had been running at about 7½ million a month. It went up to 8 million a month and this month it's ten million, but we're told it's going to go back down and not stay at ten million and actually go back towards seven million or so. That's what we're operating under. So, if you think about it, just by way of orders of magnitude here in getting some of the big picture. At the run rate of seven million a month, if in fact that's the case, although it's been running higher this year, at the run rate of seven million a month you're talking about $84 million dollars a year that is coming out of the portfolio. This calendar year I think it might be a little higher then that, I don't know we will see and $48 million came in. So, what that means is at that run rate you're talking close to a $40 million dollar net burn on the portfolio to do that. Well, if you look at it relative to the size of the portfolio it will be $280 million after this all occurs. So, that's a pretty big net burn rate. It's close to 15%, 15% or something like that. What does that mean? We've have to make returns in the low to mid teens just to keep the portfolio from shrinking in dollars at that run rate. Well, all the while I talk about that, that all sort of feeds into this rebalancing recommendation. Again, most importantly we must replenish Loomis because as you can see if you look in the first three columns titled before rebalancing Loomis is down to 9.8% of the portfolio when in fact its target is 25% and that's because we've been burning it down. If you go over to the right hand column, after we put in $38 million net from the city's contribution after the $10 million goes out and we pull another $12.3 million from the equity managers. That's my further recommendation is in those quantities to remove those amounts of money adding up to $12.375 million such that the total adjusted market value, that would be on net giving about $50 million to Loomis, that would bring Loomis back up to 26.4% getting us actually slightly above our target which is 2½% as you can see. Now, the reason I'm slightly going over is a few weeks from now you will take another $7 million or $8 million dollars out and we will be right back below the target again. So, this is the rebalancing I recommend for this time of the year based on the city's contribution and pulling some out of the equity. Going forward, given that the burn rate is getting larger relative to the size of the portfolio we are probably going to have to rebalance more frequently then we have in the past. In the past between the city's rebalancing and maybe once or twice during the year I would remove some from equity or elsewhere in the portfolio to rebalance fixed income. At this burn rate it may in fact require more frequent rebalancing in the future. We will see. If we're down to $7 million and that stays stable and the markets behave the way they do perhaps we won't have to do it very frequently, but I predict we may have to do some more frequent rebalancing going forward. Our liquidity needs are going up. That's going to have implications for what we recommend to you in terms of rebalancing and also what we may hold in the future. That is moving a little bit less away from the liquid exposures even though they might have the higher expected returns. I'm talking about direct investments, venture capital, private equity and other types of things like that. It's going to have to be taken into account and our recommendations to this board and this boards deliberations because of the large and growing liquidity needs in the future.

MR. PEARIS: Just a quick comment, Councilman Igliozzi. We're assuming that because of the pension reform and the suspension of COLAs and the other things put in place that our pension obligation growth will stabilize. In other words the $7 million dollars he's talking about in pension payments is expected to sort of flatten out in the next ten years because we've suspended COLAs. Would you agree with that expectation?

COUNCILMAN IGLIOZZI: First of all you say the contribution is $48 million this October.

MR. PEARIS: That is the expectation, yes.

COUNCILMAN IGLIOZZI: Buck Consultant did a restatement and their restatement when from $58 million to $53 million. So, first of all there is a gap in my mind of almost $5 million.

MR. PEARIS: Right. We're expecting to reach 90% of the arc.

COUNCILMAN IGLIOZZI: So, the $48 million represents 90% of the $53 million.

MR. PEARIS: Correct.

COUNCILMAN IGLIOZZI: So, what happens is that Buck Consultant did a restatement applying pension changes, the ones that were negotiated, which actually take affect in January and we had this conversation. They're retroactively applied up to 2010 and that's how it went from $58 million to $53 million and 90% of that. That's how that plays out. The next question is $10 million of the $48 million is going towards Water Supply Board.

MR. PEARIS: No. I think the difference is between the $8 million in pension payments and the $10 million.

COUNCILMAN IGLIOZZI: He just said that's why he's only adding $38 million. So, what happened to the $10 million?

MR. BERTONAZZI: It's coming out of the portfolio any day.

COUNCILMAN IGLIOZZI: Okay.

MR. PEARIS: If I remember either last year or the year before they over paid for their pension contribution based on the city's contribution and I don't know the specific numbers. So, there is sort of a reimbursement that has to happen because of the Public Utilities Commission they paid their arc payment and we told them to make 100% of their arc payment and they have to match the city's contribution of 90%. The different is the Water Supply reimbursement to match the 90% of what we're making.

COUNCILMAN IGLIOZZI: You will have a bump up of thirty eight, but it's still going to be a temporary thirty eight, right.

MR. BERTONAZZI: Yes.

COUNCILMAN IGLIOZZI: Even with that at the end of the day, although we have the arc lowered from $58 million to $53 million and we're still paying 90% of the $53 million, the numbers still need to be in the mid teens at least to cover this nut just to keep it at $240 million probably, right.

MR. BERTONAZZI: At $280 million.

COUNCILMAN IGLIOZZI: So, your saying you need to be in the mid teens to even keep it at $280 million or $240 million.

MR. BERTONAZI: At $280 million.

COUNCILMAN IGLIOZZI: So, do you have a projection if we're going to do 90% because basing in theory it looks like hopefully we will have a stabilized payment say for the next ten years.

MR. PEARIS: We will probably make 100%.

COUNCILMAN IGLIOZZI: Here's the question. Even if we top out at $53 million for the next ten years have you done a projection to say okay if the city does $53million for the next ten years, what do you need to do? Can we still keep $280 million is the question.

MR. BERTONAZZI: The odds are probably no. As a matter of fact the odds are strongly against that. I think the portfolio will continue to shrink from what I know. So, even if we were to go back to $7 million a month. You had gotten up to 7½ and then 8 and this month it went up to 10, and again, it's probably some temporary thing. So, I've been waiting to see it stabilize as 7 if in fact it does it's still going to be tough because multiple it by twelve that's $84 million. So, that's the burn rate on the portfolio before the city comes in. So, even if the city comes in let's say 50 or something you're $34 million short.

COUNCILMAN IGLIOZZI: You're still chasing the $34 million.

MR. BERTONAZZI: Which at $280 million you're still talking something like 12% or 13% net burn on the portfolio month by month across the year. So, we would have to get into the low to mid teens simply to keep the portfolio from shrinking at the current burn rate and the current contribution rate.

COUNCILMAN IGLIOZZI: In theory, the whole pension thing that's been negotiated, there will be a group of older folks in theory in ten years who were getting the 5% compounded COLAs. Although they may pass away their wife or husband actually can continue with that payment. So, there may be a drop in some of those, but I don't know.

SENIOR ASSISTANT CITY SOLICITOR CHIAVARINI: Their pension is reduced, but the COLA continues to the surviving spouse.

COUNCILMAN IGLIOZZI: I don't mean to sound morbid, but in ten years all those people will pass away. I think there is about six hundred people who go the 5% compounded COLA. There is only like twenty people who got the 6% compound COLA. The number that was broken it's really a small number. So, hopefully with those we will have some adjustments.

MR. TRACY: What have we been using as the assume rate of return for the portfolio?

MR. BERTONAZZI: It's been lowered recently. It was 8½% forever and it just got cut to 8¼%

MR. TRACY: The average for most big municipal plans is 7¾% right now.

MR. PEARIS: I think the state uses that.

MR. TRACY: At 8¼% at what point do we run out of money? Obviously, it's not a given we make 8¼%, but if we're at this current burn with those contributions we just discussed over the next ten years.

MR. BERTONAZZI: I think even if the assumed rate were lowered to 7¾% and therefore the city gave more, there is differential. The delta is so large that you're still going to have a large net burn on the portfolio.

MR. TRACY: No, question. That's wasn't the point of my question. It was more to find out when will we run out of money.

MR. BERTONAZZI: You will.

MR. TRACY: I didn't question if we will. I asked when we will. I don't want to put you on the spot.

COUNCILMAN IGLIOZZI: May I say this. I think there is another factor in that equation and that is the city's willingness to give even more for the next ten years.

MR. TRACY: There are a ton of variables I'm sure.

MR. PEARIS: From an actuarial standpoint we had to file with the state that we were in critical status. So, we filed with the Treasurer's Office. We are about 32% funded. So, by November 12th we have to submit a funding improvement plan and the funding improvement plan simply just says when we will reach 60% funded status to get us out of the critical status category. It's assumed based on the 8¼%, but again I don't know where the burn rate comes in. I'm not an actuarial, but it's expected for us to reach a 60% funded status within twenty years. So, 2033 we're expected to hit that 60% funded status. Again, I don't know all that went into the calculation, and it's really complicated based on what classifications employees are or retirees and life expectancy.

MR. BERTONAZZI: I can comment on it if you want for some insight. Inside the actuarial assumptions is this idea that not only you get that average return but it's a stable average return that you get it every year essentially. In the real world that's not how it happens. You loose money sometimes, you make more the other times, you average out to that. What concerns me and it's not news to the folks who have been on this for a long time is that the higher and higher the burn rate gets as a percent of the portfolio the more vulnerable we are to a bad year or two in the markets because the burn rate doesn't go down if the market performs poorly. So, now that extra $30 million or $40 million net burn can be a very large percent of the portfolio. So, if we have a bad year, even if we come back and have a good year next year it will be on a smaller base, which has been attached by the burn rate. So, the compounding affect sets in and you never dig your way out of the hole even if you do average the 8½% because of the volatility of that return. This is why and I'm forever trying to stabilize the volatility in the portfolio as well, not just the expected return and why you heard me say earlier we have to go towards more liquid investments in the future. Right now I'm absolutely fine with the portfolio and think about any new allocations in the future and their liquidity etc. etc. and low risks. So, you're starting to get into a catch 22 situation where the burn rate pushes you towards more liquid stable investments in order to reduce your down side volatility risk, but you give up your upside return and then has the longer term implication of not having the return that you might otherwise be able to get. Where you stable enough to resist the volatility across shorter periods of time, that's the way I think about it.

MR. PEARIS: So do we.

VICE-CHAIRMAN LOMBARDI: Does anybody have any questions on the rebalancing of the system? If there are no questions, I would entertain a motion to approve the decision of the Board of Investment Commissioners as outlined in exhibit 1.

COUNCILMAN IGLIOZZI: I just have one question. You know how Buck Consultants did the restatement, were you guys involved in that at all.

MR. BERTONAZZI: Not in those calculations, but we knew that they were happening and we've been told the results.

COUNCILMAN IGLIOZZI: Was there any discussion between Buck because they did a restatement and it's a serious restatement. Did you guys have any input to say by the way. My point is you guys did the investment and they do the analysis and the actuarial aspect of it. They're not getting your point of view in those discussions. I was wondering if that occurred.

MR. BERTONAZZI: It has in the past, not on this restatement did it occur, but we worked with Dan and his group since the beginning back in 1996. Unfortunately, don't think anything that I would say or do would have an impact on these calculations.

COUNCILMAN IGLIOZZI: You guys have the expertise.

MR. BERTONAZZI: I would love to talk to them. I see their actuarial reports, but having done this long enough I sort of already know what the numbers are going to show, but I would love to speak with them. It never hurts that's for sure.

COUNCILMAN IGLIOZZI: I think you it's important to speak to both those entities if you have a chance. I'm not going to claim I know a lot about it. I just think it's important.

VICE-CHAIRMAN LOMBARDI: Okay, I will entertain a motion to approve the discussion of the Board of Investment Commissioners as outlined in exhibit 1.

COUNCILMAN IGLIOZZI: I will make that motion.

MR. PEARIS: Second.

On motion of Councilman Igliozzi, seconded by Mr. Pearis, it is voted to approve the rebalancing of the portfolio, as outlined in exhibit 1, by the following Roll Call Vote:

AYES: Vice-Chairman Lombardi, Mr. Pearis, Councilman Igliozzi and Mr. Tracy – 4.

ABSENT: Mayor Angel Taveras, Mr. Simon and Mr. Mocarski – 3.

Motion Carries.

VICE-CHAIRMAN LOMBARDI: Any other questions? Okay, I will entertain a motion to adjourn.

ADJOURNMENT: On motion of Mr. Pearis, seconded by Councilman Igliozzi, it is voted to adjourn the meeting at 12:55 o'clock P.M.

City Clerk

Sheri A. Petronio

Assistant Clerk