DEPARTMENT OF CITY CLERK

CITY HALL

MAY 24, 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 and Aaron Simon – 3.

ABSENT: Mayor Angel Taveras, Councilman John J. Igliozzi 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.

There being no quorum present, an informational meeting was held.

VICE-CHAIRMAN LOMBARDI: Mr. Bertonazzi.

MR. BERTONAZZI: Thank you, Mr. Chairman. You have your flashes in front of you. I will give you a quick update of what's going on since our last meeting and where we are through the 22nd of May, as of Tuesday's close. The markets have been very volatile as you know. They've been selling off lately. Again, I hate to beat the same drum, or beating a dead horse, or whatever the saying is, it's Europe again. Greece's elections Wednesday, they were not able to come to an agreement. They were not able to form a government with the parliamentary system. They're having new elections. There is a charismatic young leader of a communist party called the Radical Left. That's the name of the party, and he's looking like he's going to win or at least compete. It's about neck and neck with one of the previous sort of more centrist parties. Markets are worried that if this wins and he forms a government, that Greece will leave the Euro, default on the debt, default on the agreement that they made with the rest of Europe as part of the rescue package. I'm not quite sure they understand what would be coming their way. It would be utter collapse for them. They are in depression now. It will be an utter economic collapse if they do that and the pain suffered by people will be gigantic. However, markets really aren't worried about Greece per say. They're worried about what it means for the rest of Europe, especially Spain and Italy, and in fact France and some of the other countries. Their banking systems are very weak, so it could and might indeed start runs on the banks, panics on the financial system there. There was maybe not enough money laying around to rescue everybody that would need rescuing, including Spain and Italy. There definitely isn't enough money to rescue Italy if they were to need help. I don't think they will need it very soon, but I think the odds of Spain needing a large bailout package of some form especially to re-capitalize their banks, the odds of that are rising. They had a massive real estate bubble in Spain, bigger then ours here actually and markets are very worried about that. So, you see this worry, this fear, this rising risk premium, you see it in all markets. So, you see it directly in the interest rates of the yields that those governments must pay for their bonds and their all running deficits so they need to borrow more money. So, we see it there and we see it in European equities. Their stock prices have been falling a lot lately and you see it here. So, I often get the question well, why does that matter. Well, it turns out that if Europe were to go into some sort of a disorderly recession, they're already in a mild recession right now, the question is how much worse is it going to get. Is it going to stay mild, is it going to get moderate or is it going to get really bad. Well, it turns out that the direct economic effects for the United States aren't that big. That is the amount of trade that we do with Europe while large is small compared to our economy. So, it would hurt. We wouldn't like it, but that's not the big deal. The big deal is, is the linkages in the banking system. If there system comes under great stress we won't be able to skate by it unscathed. It will affect us. To what degree is uncertain. That's the key. Markets don't know how bad it would be, how bad the linkages are by divertive markets, by the overnight markets and direct and indirect exposure. That's what's got markets worried and that is what is explaining your returns that you see on your flash here recently. So, the S&P 500 month-to-date is down 5.6%. So, we're having a very strong as we reported in previous meetings. The portfolio is down 4.3%. Now, we're still up 3% year-to-date, which is fine. That's actually not too bad for this time of the year, but we were up a lot more and markets are very volatile right now. This is what's driving some 80% or 90% of the reason markets are the way they are lately is again Europe. We have our own elections coming up and there is a great deal of uncertainty there. It's going to be close. That's the one thing I'll tell you for sure. Whoever wins it will probably divided government no matter who wins. No matter who wins they're going to be faced with politically difficult choices early next year. The markets are going to expect them to do something about our own fiscal issues. Some kind of compromise is going to be necessary. The thing the markets don't like is, is that both parties are holding their ground quite strongly. That's one of the problems with the political dynamics at the moment. There is no chance we can do anything about it right now because neither side is willing to risk doing what is necessary because with good reason they feel they will be voted out of office. Republicans feel if they compromise they will be voted out of office, and Democrats feel if they compromise they will be voted out of office. So, they're going to push it off until after the election and then next year, boy, that's going to be a big fight and a big important time. Something has to be done. I happen to think it will get done eventually, but markets are worried right now. We have this thing called a fiscal cliff that we're facing at the end of the year. So, all of the Bush tax cuts for low, middle and high income taxpayers are scheduled to expire December 31^{st}. The 2% in the payroll tax cut, that is scheduled to expire December 31^{st}. The unemployment benefits, they're scheduled to expire and the so called sequestration of spending that was a result of the failed Super Committee from last year where you had very large spending cuts especially in defense, but across the board in federal government. Those are scheduled to go in effect starting next year and some other things as well. So, if you add all of that up, if all of those things happen as scheduled, which don't think will happen, but if they do that would reduce GEP growth next year by 3% to 4%. That's how big of a change that is. That would throw us into a recession there is no doubt about it. The economy can't handle that right now. The good news is, is most folks don't think that's going to happen. Most folks think that at the least the dot comers will punt and kick the can down the road again, and do some form of short term extensions to one degree or another these programs because it's in the best interest politically to let that happen. So, we will see, but that's not certain. There is another area of uncertainly that is hurting market performance lately and it's only going to get intensified as the summer and fall go by. Lastly, China is also an area of concern. It has slowed down to rate of growth, which is still very high by our standards to maybe 7% or 7% or something like that, but they need very high growth. The good news is they purposely slowed down their economy to try to slow down inflation. They took steps to purposely slow it down. Raising interest rates, raising reserve requirements, doing some other things in the property sector and they're starting to reverse that. So, there is some hope there and they're going to start to stimulate their economy and take their foot off the brakes and perhaps even step on the gas. So, that's some good news and when we get to our own economy and our earnings actually it hasn't been too bad up till this point. The U.S. economy has grown at like 2% or so, which is not enough, but it will get us by for a while. Unemployment is not coming down fast. It is stuck at a level which is too high and the growth rate the economy is not high enough to lower that meaningfully. That's another thing markets are worried about. That said earnings, things that are important to you folks at least directly when we look at say our equity positions, earnings have been going okay. They grew over 15% last year, which is very high rate of growth historically. The average growth rate of earnings in the S & P 500 is around 5% to 7% per year. So, that was double what it was last year, but again Europe held back the markets. This year it looks like earnings are growing in that historical range of 6% to 7%. That would be my estimate. So far through the first quarter that's what they grew at. So, we are vulnerable to shocks, more vulnerable then we have been in the past and markets are worried about that as well as the other things we talked about. That in a nutshell explains the page you have in front of you. You can see our equity players are down 5% to 7% month-to-date, pretty consistently across the board. Fix income is even down a little bit. Credit risk has gone up and that type of a thing. Rogge, our international manager, is down the most on the fixed income side. Well, that's because by design they own international fixed income and it's been quite volatile in those markets as well. Year-do-date the fixed income mangers are fine. Even our hedge fund managers are down a small amount, but they're really helping if you look year-to-date. Renaissance is up 8.7% and Quellos our fund to funds is up 3.7%. So, they're actually helping and doing the job. That's the environment we're in now. I would recommend you expect more of it to come; Rallies, sell offs, volatility, strange behavior. I think there is more coming. Lastly, I would point out, as you can see in the weights of the equity and the fixed income, let's focus on the fixed income, we made our rebalancing per the instructions and agreement of this board from the last meeting and if you add up our fixed income and our cash we're at 29.1% and our goal is 29%. So, we're right there. Now, the reason the cash is high at 5% right now is two reasons. One, we're about to fund $5 million to Graham on June 1st per the agreement in vote of this board. So, $5 million of that cash will be going to Graham an the other cash we just left it in the cash account when we got it sent to us from the city because it's immediately about to go back to the city for the $7.5 million dollar monthly benefit necessity that we have. So, that cash account, the next time you see it will be very different, it will much lower as those things occur, and any cash left, of course, would be to Loomis Sayles like we always do. That said, there is a reasonable chance we, Wainwright, will be coming back to this board and recommending another rebalancing later. Perhaps August or somewhere around there because if history is any guide and we get the city's money around the October time, which is what we do, we would end up because of the burn rate as we spoke about last time, we would end up having a little bit less fixed income then would be prudent. So, depending on market behavior we might have to rebalance again and pull some more money from equity and go into fixed income towards the end of the summer. Right now we're right on target, just where we want to be. I'm please with the moves that the board has made in accepting our recommendations to rebalance and it's helping the board right now. It's protecting us from the market volatility. That's my update on market activity and the structure of the portfolio. I will take any questions you may have.

MR. PEARIS: I know we have kind of an overall balance to the portfolio based on whatever recommendations. Is there anything more conservative in these more volatile times, a rebalancing that we should consider, think about that is more on the conservative side or do we stay on course.

MR. BERTONAZZI: Historically, our philosophy at Wainwright has been to stick to the asset allocation. Now, why? If you look over a very long term time period, the evidence suggests that plans who stick with their asset allocation, through goods times and bad, tend to outperform their peers and that's where it all comes from. So, while we might, from time-to-time, be worried about what's about to happen and other times we might be quite aggressive and we think good time are coming shouldn't we even have more in equity, it turns out that our philosophy has been except in the most egregious of times to just stick with the asset allocation. For example, I remember early in 2009 talking about making the portfolio even more conservative then it was based on what happened in 2008. We had tweaked the risk of the portfolio down somewhat. We increased fixed income and reduced equity and then there was some talk about should we do it even more. Well, the board resisted and didn't , and instead decided to stick with its plan and, of course, immediately there was a huge rally that came and we had about three years of very strong equity returns. So, it's a reasonable thing to wonder about and to talk about. Some plans will move around their asset allocation more frequently than we will. Our philosophy for the last sixteen or seventeen years with the board is been to basically stick with the plan and only tweak it by small amounts. So, that's a long winded answer of saying I think we're okay where we are now. If things were to get really scary maybe we could do what we did in 2008. I guess my answer is for now our recommendation would be to stick with our targets.

VICE-CHAIRMAN LOMBARDI: The worse case scenario is everything collapses. It really doesn't matter does it? With all due respect, unless we go to gold and I don't even know if that's the defensive move.

MR. BERTONAZZI: Gold has been getting clobbered lately. If everything collapses, I think this will be the last thing you're worrying about. Guns and canned food will probably be what you're really thinking about. It's a fair point that you bring up. The thing we have on our side here is that municipal pension plans they, at a very theoretical or fundamental level, they last forever, they don't end. So, it's not like we're saving for college and junior is now fifteen and he's going to be going off to school in a couple more years and we have to spend all the money to do that. In this case, we're at least trying to make this thing last forever. So, as I said last time the areas of concern I have is I'm more concerned by just the burn rate in the portfolio in the city's vicarious position than the asset allocation to be honest with you. It's a far higher likelihood of brining this thing down.

VICE-CHAIRMAN LOMBARDI: Any other questions? Okay, agenda item number two, discussion relative to the Dexter Donation Fund and other trust accounts.

MR. BERTONAZZI: If you look at your smaller book, your thinner black book, we can go over that quickly. These are all your other trust accounts that you have investment authority over and if you turn to tab one, page one you will see Dexter Donation Trust – and I will update you – you see they're up 3½% depending out what trust you look at Dexter or Ebenezer. All of these accounts are up in the 3% to 4% range year-to-date, and all down a similar amount about 5% month-to-date based on the volatility. I have no recommendations for changes and I'm pleased with the relative performance and how they're doing. They are structured for the most part in a way to generate 3% to 5% of spending per year based on the charitable intensions of say Dexter funds or any of the other portfolios that's the way they're structured. They're too small to have hedge funds in them so they don't. They use all mutual funds. It tends to be about an 80/20 mix, it varies a little bit from time-to-time from fixed income to equity. I have no recommendations for changes and I'm pleased with the relative performance given what we've seen happen so far this year. I will take any questions that folks may have.

VICE-CHAIRMAN LOMBARDI: Anybody have any comments or questions?

The meeting ended at 12:25 o'clock P.M.

City Clerk

Sheri A. Petronio

Assistant Clerk