

**Investment Committee January 29, 2019**

**Investment Committee  
January 29, 2019**

Catherine McVay Hughes: Today is Tuesday, January 29th, 12:40, it is the meeting of the Investment Committee for the Battery Park City Authority. I'm going to call our meeting to order, and we have a quorum. So there's a lot to go over. The first thing is do we have approval of the Minutes from December 11, 2018?

Martha Gallo: Yes. Okay.

Catherine McVay Hughes: All right. So moved.

Martha Gallo: And I second it. And let's vote.

Catherine McVay Hughes: Yes. We have approval of the Minutes from December 1, 2018. So item number 3 is recommendation of the Investment Report and Guidelines.

Pamela Frederick: So the Investment Report and Guidelines are in the Board book and we have summarized them. There have not been any significant changes except two items. One was the Section 2.3 which the Board voted to amend the Investment Report and Guidelines in July to include that Section, so by function of that amendment it was already included but if one is looking from you know 2017 to 2018 I just wanted to point it out. And then the second one we did in December, which was Section 2.6 and that was the addition of the ESG Investment Principals which we voted to add that Section in December and it's now in effect.

Martha Gallo: ESG is what, the environmental stuff?

Pamela Frederick: Environmental, Social and Governance.

Martha Gallo: Yeah. Okay, great.

Pamela Frederick: And so now that's the new Section 2.6 and so what I'll do is just turn it over for a review of the I guess the annual review as well as the [indiscernible 02:05].

Martha Gallo: Do we need to approve these? I think we do.

Pamela Frederick: I think the annual is part of it so I don't know if you want to go through that now or just do the Investment --

Steve Fabor: What I don't know, I don't know if Martha's asking can you approve the two additions to the Investment policy.

Pamela Frederick: Well, the two additions or just the Investment Guidelines?

Martha Gallo: Well, there's a resolution in here.

**Investment Committee January 29, 2019**

Pamela Frederick: Right. So the resolution is to approve the report --

Martha Gallo: Oh, so it's the report and the Guidelines.

Pamela Frederick: and the Guidelines which is inclusive of those changes.

Martha Gallo: Okay. Fine. That's fine.

Pamela Frederick: Yeah. And they would vote as a committee to recommend to the Board --

Martha Gallo: Okay.

Pamela Frederick: and that's what we would do at the Board meeting is say that the Investment Committee recommended approval.

Martha Gallo: Oh, I got it. Okay. Fine.

Catherine McVay Hughes: Good?

Martha Gallo: Yep.

Steve Fabor: Well, good afternoon and happy 2019 everybody. Just to reintroduce everybody, Steve Fabor from PFM Asset Management, Bob Cheddar, Samantha Myers, get that right, new married name, Jim Haddon and Lou Sarno from Ramirez Asset Management. So we are reporting on the quarter ended October 31st of last year coinciding with the end of the Authority's fiscal year but in Bob's comments and in our comments throughout we will certainly endeavor to update you on all that has gone on, at least at a high level, in the markets, in the economy, and so far as it impacts the Authority's portfolio. Just a note, we did with Pam's help and review we did re-orient the report so you're seeing for the first time the market update in the front of the book because you know we historically talked to the markets as the background and color for what has occurred in the portfolio, so we thought that we would just orient you in terms of the report as well. With that, I'm going to turn it over to Bob Cheddar for a market update.

Bob Cheddar: Sure. Thank you. And as Steve noted, the materials is focused on the end of fiscal quarter, October 31st. Page 4, we have some bullet commentary about some of the events during the quarter, but I think pages 5 and 6 are more useful there is some charts with interest rate movements and economic data points I think is a bit more useful to look at than the bullet points. Certainly a lot has changed since October. During that period there was still expectations that the federal reserve would continue to be active in 2019. At that point expectations were for an additional 2 or 3 rate hikes this year. They moved four times last year, including the December rate hike, and again expectations were that that trend would continue. Rates peaked for the year right around the end of October, but that was because of the actions that the Fed already took and then the expectation of additional actions further down the road. But since then rates have declined somewhat significantly and I think if you look at page 6 there is a chart on the bottom of the page, it's just labeled U.S. Treasury Yields, and it illustrates the yield for a variety of maturities on October 31st and July 31st. At the end of October the two-

year Treasury yield, yielded at about a 290, today that's about a 257 and traded as low as a 235 at the beginning of January. And the 10-year at 316 today is trading at 272, so it's a significant decline in rates since the end of October, and most of that has to do with the recalibration of Fed expectations into 2019 which was based on concerns that domestic growth is beginning to slow and that global growth is also beginning to slow. There is several geopolitical concerns, certainly up until Friday the shutdown of the government was one of those concerns. Brexit is another global geopolitical concern that's been weighing on growth expectations as well as the trade war between the United States and China, which depending on the reports you see is close to being resolved or not being closed to being resolved. So that's a significant potential headwind for the economy moving forward, not just the United States economy, the global economy. Several companies that have reported recently have pointed to Chinese trade tensions as a reason for lower profit expectations. So over the course of November and into December we've had this concern building about domestic growth and global growth. A lot of the economic gain also seemed to have slowed. The ISM manufacturing and non-manufacturing reports have slowed. They were at near historic peaks in October but November and December those numbers declined a bit.

Martha Gallo: Bob, all of the [indiscernible 07:10] that you gave us is as of the end of October. Do you have a so what for us on what it means for the Authority's position?

Bob Cheddar: Yeah. So this is kind of interesting. So this is data as of the end of October. So if we were to summarize this, employment is still very strong. The December jobs' report was quite good, 312,000 jobs were created, the unemployment rates at 3.9 percent. There are some signs that growth has begun to slow. Fourth quarter JDP was scheduled to be released this week but that's been delayed because of the government shutdown. Expectations were for fourth quarter growth of 2.6 percent compared to previous quarter was 3.6 percent or so, and inflation has moderated a bit. So I think if you think about all of those three major components of the economy and the labor market which is still strong, growth which is slowing, and inflation which is starting to slow, that to me I think does point to a federal reserve that's likely to take things a bit more cautiously in 2019 compared to 2018. But that means a couple of things for the Authority's position. I will add that there's about 28 economic releases that haven't been released because of the government slow down, so we kind of think we know what's going on with the economy, but you know those 28 releases that will come out over the course of the next couple of weeks might paint a different story, but of the major releases that we've seen it does appear that growth has been slowing. So back to the Authority's positioning --

Catherine McVay Hughes: Yeah. And also the implication on the bond that the Battery Park City Authority will be issuing.

Bob Cheddar: Sure. So through the end of October, and you'll see this in the performance reports and some of the positioning reports, we had maintained a defensive duration position, so we've kept the duration of the portfolio shorter than the benchmarks and that's protected the portfolio's market value when interest rates have increased. We had a strategy meeting yesterday and we have been moving towards a more neutral duration positioning because we do think the federal reserve will be on hold for an extended period. We don't think -- the Fed will meet tomorrow and there's no expectation of a rate hike tomorrow. The next probable increase was

likely to occur in March. We don't think that's going to occur. And then beyond that June is probably the next potential date that the Fed could increase rates but we think there's a fair chance that the Fed doesn't increase rates in 2019 because growth has slowed and all those headwinds that I've mentioned I think there is considerable concern about the direction of the domestic economy as well as the global economy. Growth will be positive. We don't think there's going to be a recession this year, so we do think it'll cause the Fed to not raise rates any further. There's a few Fed officials who are starting to talk about cutting rates. We don't think we're quite there yet but it'll be interesting when we see tomorrow's meeting details of the police statement whether there is Fed officials that are in favor of cutting rates at some point in the future. Again, we don't think we're there yet, but it's been talked about by some Fed officials. So I think when we review the October, I should say the end of January portfolio performance, you're likely to see much longer durations in some of the portfolios. Now we still have a lot of portfolios that are driven by cash flows and that really doesn't change because we need to have funds available when we need to have those funds available, but in portfolios like the reserve fund or the longer term OPED portfolios, we're likely to have a modestly longer duration relative to the benchmark because we're not as concerned as we were about increasing rates today compared to the end of October. It's really, it's a different interest rate environment, I think when you look at those changes in the yield, if you look at Fed expectations, three or four rate hikes in 2019 back in October compared to really none today, you know, we could see one this year depending on the direction of the economy, but we don't think we're going to see three, you know, three or four additional rate hikes this year.

The other really important concept I think is, and we talked about the shape of the yield curve quite a bit, and the charts on page 6 are a good illustration of that, particularly in the top right hand corner where you'll see that most yields are pretty close to one another. I wrote down some yields this morning to characterize the change since the end of October. The two year is about 257, the three year is about 257, the five years is about 257 and when we move out to 10 years it goes up to 278 so even where there is some slope to the curve it's very modest. The yield curve is very flat and we've seen this develop over the course of the past 12 months. And you can see the shape of the curve in that chart as short-term rates have moved higher, longer-term rates have just moved higher a little bit, or in some cases not at all and that's caused the yield curve to flatten. And that's typical when the Federal Reserve starts to increase rates and gets closer to the end of the rate hike cycle. I'm sure everyone's heard that an inverted yield curve is a particular of a recession at some point, some parts of the yield curve are inverted, threes to fives for example were inverted for a period, the curve's very flat not inverted yet, but if the Fed were to you know maybe increase rates a couple another time that could cause the yield curve to invert. Or I think if the market would signal that the Fed is likely to cut you'd likely see longer-term rates rally in anticipation of getting in front of that and that could invert the yield curve at some point in the future as well.

But I think to summarize, we acknowledge and we believe that growth has slowed. The data that we've seen reflects that. We don't think we're going to fall into a recession this year. Growth will be positive. The labor market sure looks like it's still strong. Last week initial jobless claims were I want to say 199,000, that's lowest since 1969 and the labor market was much smaller back then so that's a very strong number. The jobs report will be released on Friday, expectations are for about 165,000 jobs or so. So the economy's going to create jobs but growth

## Investment Committee January 29, 2019

is slowing, there's lots of headwinds that folks are worried about and I've listed those. So in our view that means that the Fed is likely to be much more cautious or adopt what they call a data dependent approach to increasing rates so they're no longer on this programmatic schedule of increasing rates every quarter, every three or four meetings, they're going to be much more careful about the data and what it looks like moving forward.

Steve Fabor: So given the uncertainty as Bob just described with the Fed, with the economy, the global tensions you know on tariff issues, trade issues and the like, you know, if you think back to what Bob mentioned a few moments ago, our short duration strategy was really quite appropriate during a period in which the Fed was increasing rates, was tightening and that worked to the Authority's advantage from a return perspective. At the same time, for those funds of the Authority's and there is a significant number that are not managed until return strategies benefited from increasing yields, interest earned, you know, earnings are up sharply over a year ago, in some cases double if not triple depending on the accounts. And some of that information is included in your report. We're not going to get into the detail. But now given kind of the volatility that we saw in November and December, the uncertainties now, the issues created by the shutdown, the Fed perhaps being on hold for an extended period, certain elements of the market thinking that they might in fact begin to ease at some point, our strategy -- the Investment Committee's decision to move to a more neutral duration position we think is wholly appropriate, again given the uncertainty. So that again, that as a backdrop against not only what you see in the report for last Fall but also what you're likely to see when the January 31st report comes out in the next you know three weeks or so.

Catherine McVay Hughes: So when you buy a note or a financial instrument do you hold it to maturity necessarily?

Steve Fabor: No, not necessarily.

Catherine McVay Hughes: Or do you sell it?

Steve Fabor: You know, again, as we have gone through a number of times about eight or so of the Authority's accounts are managed to total return strategies, so they are actively managed to a benchmark, whether it's a one-year on Treasury, on one to five, or one to ten year Treasury index. So there are adjustments being made as the indexes, indices are adjusted on a monthly basis, likewise as the portfolio management teams at PFM and Ramirez see opportunities to trade out of a security into a like security or a different sector in generated gain we will do so. There are accounts that are less likely to be more actively traded, some of the building accounts, building escrows, where it's more of an asset liability matter so we know the Authority does not likely need money for a year and-a-half, two years and a security will be purchased and maybe it's swapped out at some point for something that generates a gain and maybe it's not. The debt service funds that the Ramirez team manages, you know, don't see a lot of buying and selling generally, there may be some from time to time but because those are shorter duration funds with known liquidity dates, you know, it tends to not be as much if at all kind of trading in those accounts. But there's no policy for or against buy or hold. The policy is agnostic on that, but the philosophy has been whether the accounts are total return or not total return that they're

**Investment Committee January 29, 2019**

managing in accordance with the adopted strategy and always done in the financial interest of the Authority.

Martha Gallo: Somewhere here I saw that we're paying \$350,000 a year for the overall management of the accounts.

Pamela Frederick: It's in the number just in front of this.

Martha Gallo: Yeah, that's fine. Does that include the transactions in the active account or is that separate?

Steve Fabor: The fee payable to PFM and Ramirez is a percentage of assets under management and that includes everything. There's no transaction fee.

Martha Gallo: Okay.

Steve Fabor: And that is a capped fee.

Male Member: That's capped, a percentage up to a cap.

Steve Fabor: Right. And it's been that structure for 10 years.

Pamela Frederick: I think it's also in terms of investment objectives, just wanted to make note that one of the objectives after being, you know, complying legally, safety of principal, meeting liquidities and operating needs, project needs, is maximizing the legally allowable return. So we do have return objectives as well even though it's not, you know, it's a fixed income portfolio in a low rate environment.

Martha Gallo: It's a conservative strategy.

Pamela Frederick: Yes.

Martha Gallo: Will be very conservative.

Catherine McVay Hughes: The prudent law.

Pamela Frederick: Exactly.

Catherine McVay Hughes: By-laws.

Pamela Frederick: And Lou, I don't know if you wanted to add to that --

Lou Sarno: In terms of trading activity?

Pamela Frederick: Yeah.

## Investment Committee January 29, 2019

Lou Sarno: Well, the two large portfolios that we oversee are really managed around liquidity needs as was indicated. However, on occasion we will have opportunities to move out of say a Treasury security into an eligible security such as commercial paper or a New York Municipal Bond where we could pick up implemental yield. So if those opportunities present itself and from an accounting standpoint the extra interest that we're going to earn would offset any loss, if there is a gain it's immaterial, we'll take advantage of those opportunities to do so. Most of the time though the portfolio is pretty much set but where we can increase interest and come we'll do so and we will sell a Treasury and buy municipal, trades like that. And it's not often, but it does happen.

Steve Fabor: That's a good question. So I wanted, in the interest of time, I want to jump over to performance, but I think before we do so I would again to set the stage I think that the chart on the bottom right of 6 which shows that the yield curves by sector is really interesting because, and we've talked to this committee about this from time to time about the spreads and the opportunity between sectors, most especially between Treasuries and federal agencies and Treasuries and commercial paper. A large portion of the Authority's accounts are shorter duration portfolios and commercial paper plays a large role. Over the last number of years commercial papers has offered a lot of value because of the spread relationship to Treasuries. That relationship has changed. There's not as much value as there has been historically but there still is from time to time. But I thought that just paints a picture, an interesting picture leading into discussions of performance. So at a high level the Authority finished the year with just under \$436 million in invested assets. Those are the assets that are managed by PFM and Ramirez and does not include monies held away from us in any bank accounts or what have you, if there is any. That is roughly the same as the prior year end, October 2017, where it was about \$440 million, so pretty much flat year over year. The composition of the portfolio remains to Ms. Gallo's point, very conservative, and certainly in compliance with the Authority's Investment Policy but 74 percent at fiscal year end was in U.S. Treasury Securities, roughly 13 percent in Federal agencies, about 9-1/2 percent or thereabouts in commercial paper, and the balance, about 3-1/2 percent in municipal securities. All of that from a sector maximum or sector allocation maximum is again in compliance with the Authority's Guidelines. And you know, it reflects not only the state of the markets but also the challenges associated with a very conservative state statute and Investment Guidelines of the Authority itself.

So turn to slide 8 where it really delivers kind of the meat of the message here. You can see that for the quarter end at October 31st, performance relative to benchmark for the total return strategies was very good. In each case, both for the six long-term strategy portfolios as well as the two shorter term strategy portfolios, performance was in excess of the benchmark performance, in some cases significantly, in some cases lesser so, the latter really reflecting the nature of the short-term portfolios at fiscal yearend. For the 12 months, so for the full fiscal year, it's a bit of a different story and while performance relative to benchmark for all of the longer term strategies was positive, in other words the portfolio performance outperformed the return of the designated benchmark. For the short-term strategy it was a bit different. The returns on the short-term strategies under performed that of the short term benchmark which was the three-month index, largely as a result of two things. One is liquidity considerations as Bob has talked about at nauseum I think, and two as a result of the short end of the yield curve moving sharply higher through the fiscal year. But performance for the longer term accounts

## Investment Committee January 29, 2019

was while negative did out perform that of the designated strategy. Diversification, meaning across sectors, some of the allocation to commercial paper, municipals and agencies in some cases added to performance relative to benchmark, and again the benchmarks are all Treasury benchmarks, and the shorter duration strategy employed by the Investment Management Team really did add to performance relative to benchmark. Sam.

Samantha Myers: So to skip ahead to [indiscernible 24:51] the Investment Guidelines compliance [indiscernible 24:54] included in the report to show --

Member: [Indiscernible 24:57].

Steve Fabor: Oh, sorry.

Samantha Myers: It, we provide this in the quarterly report to show how the Guidelines are an issue concerning compliance with the Authority's Investment Policy so it's you know Bob and Ramirez are trading we do have those rules set up so we are always in compliance but we would like to report on a quarterly basis as well. So on the slide you can see diversified by issuer but as Steve had pointed out before about 74 percent of the portfolio is allocated towards U.S. Treasury Securities.

Catherine McVay Hughes: So on this page here, on this chart I spoke with our CFO earlier, here you only have S&P rating. It would be great if you could also add another column for Moody's because if you look at the Syracuse issuer has an NR because it's not rated by S&P but I understand it's rated by Moody's, so because it says okay, so just we need to get all the information on this. Okay.

Steve Fabor: As we have reported to the Committee in the past our system generates S&P ratings only. In those cases where, you know, in this case there's a split rating, particularly when there's an NR you know we footnote that. So that's how we've handled that historically.

Samantha Myers: And I actually, Pam and I did speak about that. I spoke to our accounting group so they are able to provide that information. I need to add that so it's not a problem. I'll do that.

Catherine McVay Hughes: Great. Okay. Thank you so much.

Jim: The Syracuse issue is an A1 [indiscernible 26:25].

Catherine McVay Hughes: Yes.

Samantha Myers: So on the following pages the portfolio value on a strategy level. This is just an overview of how by each strategy, so we have the longer term and the shorter term and then the other accounts that are not total return accounts. Just an overall picture of how market values have changed over the quarter as well as duration. So for example, you can see the longer term investment strategy, the market value is slightly increased but there was not a lot of activity so there were not a lot of cash flows from those accounts over the quarter, whereas for the short-



## Investment Committee January 29, 2019

term investment strategy we did see the pledge revenue take some revenues in over the quarter so that balance did increase over the quarter and you can see more notably the duration of that strategy overall has decreased and that is common at the end of the fiscal year as we are preparing for outflows at the beginning of the next fiscal year. So that was an intentional kind of repositioning in the portfolios that we do every fiscal year.

Martha Gallo: So the market value decline of the other accounts from 180 to 106?

Samantha Myers: Yes, there was a large outflow over the quarter is from the joint purpose fund there was about \$41 million of flows going out during the quarter from that account, so that --

Pamela Frederick: And that's the New York City page though.

Steve Fabor: Again, it's all fiscal year end driven.

Pamela Frederick: Yeah. We wait for them to request it and then we [indiscernible 28:01].

Martha Gallo: Yep, no, I got it. I got it.

Pamela Frederick: Many times, right?

Martha Gallo: Yeah.

Samantha Myers: We weren't going to go into the details of each individual accounts, but a few pages later you can see the transfers and the cash flows that occurred over the quarter for those individual --

Steve Fabor: Before, and I know Sam was going to turn to the kind of specifics of the composition by sector and issuer, I would just point out and I mentioned this earlier, slides, well again [indiscernible 28:25] and mine 14 and 15, I don't know what it is in yours I guess 15 and 16 but they're labeled portfolio earnings, PFM managed accounts, portfolio earnings Ramirez managed accounts, I just point out that if you look at the accrual basis earnings you know almost \$2 million for the PFM accounts and \$550,000 for the Ramirez accounts, the year prior, again this is by way of demonstrating how yields are substantially higher and that's the income generated on these portfolios has increased substantially. Those numbers a year ago were \$1.2 million and \$167,000 respectively for the PFM and Ramirez managed accounts. So again, the earnings generated from these portfolios has moved substantially higher even during a period in which you know as we reported a moment ago, the total return of the longer-term strategies and the shorter-term strategies was constrained by the fact that rates were rising sharply. So I think Samantha, we wanted to turn to the beginning of the next section.

Samantha Myers: The summary of the Aggregate Portfolio, Section 3.

Steve Fabor: Page 21, I'm not sure what the page is for you all.

## Investment Committee January 29, 2019

Samantha Myers: The first page of that section is the Aggregate Portfolio Composition and Credit Quality. So this shows between the accounts managed by PFM and Ramirez what the general asset allocation looks like. So again, as you can see very diversified from both a sector standpoint and a credit quality but all very high credit quality securities that the Authority is invested in. Quarter over quarter you can see that there was not a substantial change or reallocation between sectors. We did add some funds into the agency sector which also includes super nationals which was a benefit to the longer-term portfolios that did invest in those. And the municipal sector was slightly lower over the quarter but nothing very material. So as you can see again here it's 74 percent of the portfolio is allocated to Treasuries.

Steve Fabor: Lou and I were talking before, kind of at a sidebar before the meeting started, but Lou, you want to just, you know, the challenge, just for the members, just remind them of the challenge with adding new needs to the portfolio.

Lou Sarno: Sure. So again, there are really two main concepts that we have for management. One as I indicated earlier, liquidity needs. The two large portfolios that we oversee, the junior debt service and the senior debt service have significant capital outflows on May 1st and November 1st, so we have to manage around those dates. Second, we have to manage within the investment parameters, so given that there's somewhat of a limited opportunity set both in commercial paper and in municipal bonds that we would be permitted by the Investment Policy to invest in. But every day we go in and we try to find opportunities to add income to the portfolio. Right now, if you look at our overall portfolio, just the Ramirez account, we're probably around 18-1/2 percent or so in municipal credit and about 10 percent in commercial paper with a balance in U.S. Treasury Securities. So that will vary with cash flows as money comes in and money goes out those percent allocations will move up and down but always within the Investment Policy.

Steve Fabor: Thanks, Lou.

Catherine McVay Hughes: I think we talked last time that there is some municipalities that we feel a lot more comfortable with relative to their pension funding, etc., and others that we don't want to go anywhere near?

Jim: And that is part of our credit analysis. We do take a hard look at it and we look at municipal issues what if any credit issues do they have, pension servicing [indiscernible 32:51]. The good thing is that New York State, it's not a major problem with a lot of the New York City issuers. If we go outside of New York State pensions become more of a credible issue.

Catherine McVay Hughes: Okay.

Steve Fabor: I wanted Lou to comment on that because I think as we turn to these next two slides, which break down the portfolios by manager you'll see that while the dollar amounts in the muni space are not all together that different between managers. The percentage of the assets managed are and munis are a greater percentage in the Ramirez managed portfolios. And I've said this to this Committee before and I'll say it again, I mean they do a really good job of

## Investment Committee January 29, 2019

identifying opportunities to find value in the muni space and it's really helped performance over time.

Samantha Myers: So the next two slides [indiscernible 33:46] PFM Asset Management managed funds, for the aggregate portfolio summary here. Again, a similar concept, we have reallocated slightly over the quarter the different sectors but nothing substantial. I think the one thing to point out on this slide is the maturity distribution chart on the bottom left, you can see we do have a significant portion of the portfolio in the under six months bucket which again is due to the upcoming cash flows right after fiscal year end.

Steve Fabor: Lou, do you want to talk about the slide, or Jim, about the Ramirez portfolios in terms of the aggregate portfolio summary?

Lou Sarno: Sure. Again, this is as of October 31st, there have been capital outflows obviously since then hence my earlier comment that the allocation to municipal bonds was about 18 percent. The current market value of the assets managed at Ramirez is about \$36 million or so down from the \$48 million. So that pushes up the percentages in non-Treasury Securities. We expect the capital inflow from Friday and we will for the junior and senior debt service portfolios and we'll invest accordingly to meet, you know, the liquidity needs. We also oversee the escrow portfolios. There are I believe 23 or so total portfolios and five are in excess of \$1 million in total assets and the remaining 16 or so escrow holding accounts are actually under \$1 million in total assets. So there we don't have cash flow needs so it's just more of a buy and hold but some of the portfolios are indeed quite small in size so we --

Pamela Frederick: There's a couple of things that I had mentioned, Catherine, that we want to do is actually, well to legal right after our call just to summarize some of the things we want to look at. One is have a review of the provisions in each of the leases which historically it's our understanding that they require separate accounts. As we do amendments or revisions to the lease agreement where we've asked legal to make sure that the reserve account is looked at for a few things, one is to add language that would give us a little more flexibility in how we structure those accounts because ideally we'd like to see those in a master account and then have subaccounts under it which could allow you know the advisors to manage that much more efficiently. The second thing is looking at the size, some of them as we noted are very large, probably the buildings that, the oldest buildings, the newer buildings have larger size funds, we're going to look at resizing those and putting in language that allows us to replenish if we were to draw from those funds. Right now on our read there's no replenishment. If you use it it's gone. So we would you know effectively if it weren't changed we would just build our own reserves, we'd fund those ourselves. So all of that we're going to need to take a look at and try to get that corrected as we're going about amending these agreements.

Catherine McVay Hughes: Thank you for updating here.

Steve Fabor: In the interest of time I just want to point your attention to one additional slide. It's the next slide, which is the aggregate portfolio issuer breakdown. So we've been talking about the sector allocations. These give you an indication of not only where the funds are allocated by sector but also the names within those sectors. So obviously under the U.S. Treasuries you have

## Investment Committee January 29, 2019

treasuries, [indiscernible 38:00] and SBAs which are all guarantees. The Federal agency sector, Freddie, Fannie, Federal Home Loan Bank, etc., the four below that, International Bank of Recon Development and then the ensuing three those are all super nationals, so IBRDs is the world bank, and effectively we've talked a lot about that over the last couple of meetings. And then on down the line commercial paper and municipal. So you get a sense for the types of names that are in the portfolio. I would comment that in terms of the commercial paper given the rating restrictions that you have in your policy which is dictated by the state statute there are probably only a total of 8 names or so on the corporate commercial paper issuance side that you can own. Every once in a while we see an outlier like Salt River Project which is a municipal entity, Public Power Utility in the Phoenix area that does issue commercial paper through a CP program, and because of their ratings it qualifies. But the opportunity to expand that list of names is limited by the rating restrictions contained in the Guidelines.

Bob Cheddar: And I think both us and Ramirez would love to hold more short-term commercial papers.

Martha Gallo: I'm sorry?

Bob Cheddar: Both us and Ramirez would love to hold more short-term commercial paper, but the market's just very, very limited at the moment. It's unfortunate.

Pamela Frederick: [Indiscernible 39:20] used to own at some of these because of the more restriction there.

Bob Cheddar: Right. So they wouldn't meet [indiscernible 39:27].

Steve Fabor: And on that last point, and then I want to open up for any questions, but just a reminder to the members, the ESG addition that was just added or will be added upon approval, by the Board in an hour or so, doesn't contain any specific reference to any specific names but it state specifically that fossil fuels, you know, companies that are involved with fossil fuels are prohibited. So I just wanted to remind the members of that. And again, over time as things change from an ESG perspective with respect to your policy, the State's approach, you know we would certainly look to modify that policy accordingly. So we will pause there. I mean we got through really the balance of what we wanted to. We did it very quickly obviously. Apologies for that, but if there's any questions we're happy to address them.

Martha Gallo: [Indiscernible 40:28] thorough report. Thanks for everybody's help.

PFM/Ramirez: Thank you.

Catherine McVay Hughes: Thank you very much. And we have to take a vote to recommend to bring this up at the Board meeting that we approve it.

Martha Gallo: So I'll move to recommend that we approve the Investment Guidelines and the Performance Report as delivered.

**Investment Committee January 29, 2019**

Catherine McVay Hughes: And I second it.

Pamela Frederick: Thanks so much. Just so you know the next meeting of the Investment Committee is March 26th. Lauren is going to be sending out invitations to the Board members for the, and she'll drive the dates, but what our goal is to have the Investment Committee meetings at 12:30 in advance of the Board meeting which starts at 2:00.

Catherine McVay Hughes: And it also, that means in the March meeting we'll get the January 31st report so there's a quicker turnaround because it takes you roughly six weeks to assemble the information.

Steve Fabor: Yeah. For this report it's closer to 30 days. We didn't address, Pam, if you don't mind, I mean we didn't address the October 31 at the December meeting because the other issues that were on the table in terms of Investment Guideline modifications and --

Pamela Frederick: And the December meeting was earlier in the month too.

Steve Fabor: Right. So we could have [indiscernible 41:56] by typically it's around 30 days or so.

Catherine McVay Hughes: Great. Do we have a motion to end the meeting?

Martha Gallo: Yes, so moved.

Catherine McVay Hughes: Okay. Second. So we adjourn the Financial Committee meeting. Thank you.