

JACKSONVILLE POLICE AND FIRE PENSION FUND
SPECIAL WORKSHOP MEETING

DATE: March 14, 2016
TIME: 11:08 a.m. to 1:04 p.m.
PLACE: Jacksonville Police and Fire Pension Fund
One West Adams Street
Suite 100
Jacksonville, Florida 32202

BOARD MEMBERS PRESENT:

Larry Schmitt, Board Chairman
Richard Tuten, III, Secretary
Richard Patsy, Trustee
William Scheu, Trustee

ALSO PRESENT:

Beth McCague, Interim Executive Director
Debbie Manning, Executive Assistant
Stuart Kaufman, Board Counsel (via phone)
Devin Carter, Board CFO

Brian Smith, FIAC Chairman
Mike Lukaszewski, FIAC
Rob Kowkabany, FIAC

CITY REPRESENTATIVES PRESENT:

Brian Parks, City Council Auditor

GUESTS:

Rich McConville, Sr., Northern Trust
Patrick Krull, Northern Trust (via phone)
Anthony Peccatiello, Northern Trust (via
phone)

These matters of the Trustees' Workshop Meeting came on to be heard at the time and place aforesaid, when and where the following proceedings were reported by:

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W O R K S H O P

March 14, 2016

11:08 a.m.

- - -

CHAIRMAN SCHMITT: It's 11:08. We will call the special workshop meeting to order. We have a couple members -- or a couple people on the phone. Robert Klausner, are you there?

MS. MANNING: Actually, Stu Kaufman.

MR. KAUFMAN: Yes. Actually, Stu Kaufman. I'm his partner. How are you?

CHAIRMAN SCHMITT: Okay. Very good.

MS. McCAGUE: Mr. Chairman, Mr. Klausner has jury duty today.

CHAIRMAN SCHMITT: Very nice.

And is that the only one we're going to have on the phone?

MS. MANNING: Actually, we have two members from Northern Trust. Pat Krull and Anthony --

MR. PECCATIELO: Anthony Peccatielo.

MS. MANNING: Absolutely. Thank you.

CHAIRMAN SCHMITT: And from our Financial Investment Advisory Committee, we have Rob Kowkabany and Mike Lukaszewski.

MR. LUKASZEWSKI: That's right. Very good.

CHAIRMAN SCHMITT: Very good. Welcome.

1 Thank you for coming today.

2 MR. LUKASZEWSKI: Thank you.

3 CHAIRMAN SCHMITT: And I believe our main --
4 our only thing on the agenda today is a
5 presentation from Rich McConville from Northern
6 Trust.

7 And, Beth, if you would like to do the
8 introduction.

9 MS. McCAGUE: Thank you, Mr. Chairman.

10 We're delighted to have Richard McConville
11 here today. He is our relationship manager at
12 our very important relationship partner, Northern
13 Trust. He's been our relationship manager for
14 the past nine years.

15 And the reason he is here today is as a
16 result of the follow-up work required of the
17 finance committee through -- of the City Council
18 through their subcommittee, they have many
19 questions about documents that the fund had
20 turned into them, as well as Mr. Klausner's firm
21 had turned into them, regarding two areas: One
22 is securities litigation and our lead plaintiff
23 status; and two is, Commission Recapture
24 Agreements.

25 So as we begin to respond to the

1 subcommittee's request for additional
2 information, Richard McConville and Northern
3 Trust as our custodian was very helpful in
4 providing us reports and so forth that we were
5 able to share with the subcommittee of the
6 finance committee.

7 And as a result of that, I just thought it
8 would be a very good idea for Richard to come
9 here along with his experts to, one, share with
10 us what is it the custodian, Northern Trust, does
11 for us. Because it is such an important
12 relationship, I thought new board members
13 especially might want to hear that.

14 And then also to ask his experts in the area
15 of security litigation settlement and also
16 commission recapture to give us sort of state of
17 the industry: What were other public pension
18 funds doing in these areas, so that the Board
19 could understand what these two areas -- what
20 this meant to the fund; and, two, then be able to
21 take a look at our policies at a future Board
22 meeting to determine, do we want to continue the
23 policies we have in place regarding those two
24 areas, or do we want to make a change in policy.

25 So today is information only on our

1 relationship and the custodial work that Northern
2 Trust provides for us, but first I think we're
3 just going to let us hear about securities
4 litigation, and also the second recapture
5 commission.

6 And I know the Klausner firm -- Stuart is on
7 the phone with us, and they are here to answer
8 any specific questions you-all might have
9 regarding actual work that they have done for us
10 in that area.

11 So, thank you, Richard for being with us.
12 Richard did not get in last night until about
13 1:15.

14 MR. McCONVILLE: Ready to go, though.

15 MR. McCAGUE: Thank you. Welcome.

16 MR. McCONVILLE: Very important relationship
17 to Northern Trust as well. We've been your
18 custodian for over 25 years.

19 This is our core business custody and some
20 of the topics that we're going to cover today.
21 And as you're having these meetings, if there's
22 ever any other topics that you would like us to
23 cover, and there might be several, feel free to
24 give us a call and let us know what ones to
25 cover, and we'll put either the experts or the

1 documents in front of you to help you make
2 decisions for your plan.

3 We're going to start -- unfortunately, we're
4 going to start in the back of the book, page 44.
5 Pat Krull from our securities litigation class --
6 what we call class actions group, is going to
7 give you an overview on our class action process
8 and then answer any questions that you might
9 have.

10 So, Pat, if you're there, take over.

11 MR. KRULL: Absolutely, Rich. How are you
12 today?

13 MR. McCONVILLE: Good. How are you?

14 MR. KRULL: I'm well. Thanks. I'm well.

15 First off, I would like to introduce myself.
16 As Rich mentioned, my name is Pat Krull. I've
17 been with Northern Trust -- this is my 18th year.
18 About 15 of those were spent in the class action
19 group. I currently manage the division. And we
20 do basically -- as a core service to you as our
21 client, we'll monitor all litigations globally,
22 and then we'll go into the specifics around the
23 services that we offer to you as well.

24 So I would like to thank you for giving me
25 the opportunity to speak to you today, and I

1 apologize for not being able to attend in person.

2 So as Rich mentioned, we're on slide 45 of
3 the book. Just a high-level overview.

4 So Northern Trust, as I mentioned, will
5 typically monitor all litigations that are going
6 on around the world, predominantly in the US.
7 What we will do is we will monitor those and then
8 file for anything that's settled within the US or
9 the Canadian court systems as well as if there's
10 a settled event within the Netherlands.

11 So essentially when I mean settlement, the
12 attorneys for the plaintiffs and the defendants
13 and the judge have all gotten together. They
14 decided what they feel is a fair dollar amount
15 for the settlement of a particular litigation.
16 Typically there's a pool of cash or pool of stock
17 or a combination thereof.

18 And then what Northern Trust as your
19 custodian will do is they will pull the historic
20 data that's applicable to that particular event
21 and will submit a claim on your behalf.

22 And then once those claims are honored, if
23 they're honored, we'll take those proceeds and
24 we'll distribute into the corresponding account
25 that we filed for or any way that you determine

1 that you want those handled.

2 On the next slide it talks about some of the
3 notifications and how the process works. We
4 typically -- well, we subscribe to multiple
5 vendors. The largest one is a group called SCAS,
6 or Securities Class Action Services. They're a
7 division of RiskMetrics Groups, or they're also
8 known as ISS, Institutional Shareholder Services.
9 We list out a couple other vendors there as well.

10 These notifications will typically include
11 the name of the event, a brief description, the
12 court system overseeing it, any websites, class
13 periods, the general details around the event,
14 and if they have a deadline, what that deadline
15 information is.

16 In addition to these sources, what we also
17 do is, as being one of the largest institutional
18 filers, Northern Trust will also receive directly
19 from a claims administrator. They are the third
20 party hired by the court to do the actually
21 processing of the claims. They recognize us as a
22 large institutional filer. They now proactively
23 reach out to us; the vast majority of these guys
24 telling us about new events that they have.

25 So we utilize that to capture all the

1 litigation that's going around globally. If you
2 receive anything directly into your offices --
3 many times our clients do -- they're forward that
4 on to their relationship manager. So Rich gets
5 the mail and then he will forward that on to my
6 group as well. So we will use that as another
7 rung in the net to really make sure that we're
8 capturing everything that's going on.

9 On the next slide, it talks about what we
10 do, then, for you after those notifications are
11 received. I've got a group of folks that will
12 take those notices, then will assign it out to
13 the team. We'll have two individuals from the
14 team, two senior individuals. They'll do
15 independent research, as well as a third
16 individual on what we call the control team.

17 It's really like an internal audit group
18 that kind of oversees our day-to-day process.
19 Then those folks will all get together. They'll
20 come to the conclusion that they've captured
21 everything as far as the appropriate time frames
22 securities are involved, and then we'll go out to
23 our custodial system and we'll order that data.

24 That's on overnight process that then
25 queries that data that's specific to all of our

1 clients. We're gathering it at the asset level
2 within all of the accounts during the pertinent
3 time frame that have that activity.

4 And these events typically are historic. So
5 we're looking back. We'll pull data anywhere
6 from three to eight to ten years, depending on
7 the specifics of that particular event.

8 What we will then do is we'll create a
9 notification that will go out to our clients.
10 And I use the term "client" generically in this
11 case. We could have those notifications go
12 directly to you or your legal group. Most of our
13 clients prefer that they go out to their external
14 investment manager because they carry the
15 investment decisions on those particular events.

16 When we talk global events -- and I'll talk
17 about that in a minute -- we're also seeing an
18 uptick from our public fund clients that they
19 would like to being a bit more active in the
20 decision-making of those events. So we're seeing
21 a bit of an uptick of clients who want to receive
22 global notifications only. And, of course,
23 that's something that we definitely could
24 accommodate.

25 We notify the investment decision-makers, or

1 you, directly in a couple different ways. We use
2 fax, we use Swift, and we use our own electronic
3 proprietary system called CDR, which stands for
4 Corporate Action Delivery and Response System.
5 It's essentially a secured Internet portal where
6 somebody would log in and see all their notices.

7 We also send what's called informational
8 messages for anything that's an opt-in or a group
9 action. So those are the events outside of the
10 US and Canada.

11 About six or seven years ago now, the US
12 Supreme Court made a decision in a case called
13 *Morrison v. National Australia Bank*, or NAB.
14 And, in fact, I think it was Justice Scalia who
15 made the deciding vote on this.

16 Within that case, the US Supreme Court ruled
17 that no longer would they allow non-US-traded
18 activities to be included within a federal case
19 within the US federal court system.

20 At that point, as an example, what we would
21 see is many cases where ADR shares such as like a
22 BP ADR being included in a case. And as the case
23 progressed, we would also see then BP stock that
24 was traded around the world primarily in the
25 FTSE, for example, in London being included

1 within these cases for settlement.

2 So after the US Supreme Court ruled that
3 that no longer can take place, what we began to
4 see was litigation within different countries
5 that allowed class-action-like activities. They
6 function in some cases very similar to the US,
7 with one major difference: Those who want to
8 participate must proactively opt into the case.

9 So in this particular scenario, what you
10 would need to do is look at who's representing
11 the group or gathering the client base to try to
12 bring this sort of litigation forward within
13 their representative county. You would sign an
14 agreement with them; and then, of course, that
15 agreement would include any sort of fee
16 structure.

17 Then also, depending on the global market
18 that you're in, Australia, as an example, you may
19 also have to sign what's called the funding
20 agent. And what that entity does is will cover
21 the expenses up front of any litigation; but, of
22 course, on the back side, they're looking for
23 typically a piece of any settlement or
24 distribution that is the result of that action.

25 And then sometimes even forward, you have to

1 hire an insurance company to provide a policy in
2 the event that that funding agent were to go
3 bankrupt.

4 So as your custodian, Northern Trust does
5 not have the authority to hire an attorney to
6 represent you, nor do we have the authority to
7 opt you into an active legal event.

8 So when we look outside of the US, what
9 we'll do is provide a notification alerting you
10 of that event. You know, back to my example,
11 alerting you of the PB case that's going on or
12 even front-page news: The Volkswagen cases that
13 are going on in Germany, which there's four or
14 five; two of them that are going on in the
15 Netherlands, and really allow you at the entire
16 relationship level to make a determination about
17 how actively, if at all, you want to be within
18 those particular cases.

19 Before I go on about filing claims, I'm
20 going to pause right there and ask if there's any
21 questions.

22 MR. KAUFMAN: Yes. This is Stu Kaufman.
23 Just a question.

24 On the funding agents, what happens -- if
25 the lawsuit is dismissed or is unsuccessful, what

1 happens in that instance if the funding agent is
2 laying out costs on behalf of the fund?

3 MR. KRULL: That's actually worked out in
4 the contract between the funding agent, the law
5 firm representing the clients within a given
6 jurisdiction, and the client themselves.

7 MR. KAUFMAN: Okay. And right now the
8 fund's not -- I mean, you're not notifying -- are
9 you notifying the fund of these opportunities to
10 opt into these cases at this point in time?

11 MR. KRULL: We typically notify the
12 investment decision-maker.

13 At this time, Rich, you can confirm. I
14 don't believe that we were directly notifying
15 this particular client.

16 MR. McCONVILLE: Correct.

17 MR. KRULL: Although the client does have
18 the ability to view reports that these events
19 would also be illustrated.

20 MS. McCAGUE: And, Rich, the investment
21 decision-maker, are we talking about Summit
22 Strategies?

23 MR. McCONVILLE: No, no. The actual
24 investment manager.

25 (Simultaneous speech)

1 MR. McCAGUE: Oh, the money manager.

2 MR. KAUFMAN: -- to want this service
3 provided in the future, and if so, what would it
4 be?

5 MR. McCONVILLE: No, there's no charge at
6 all for the notification service. It's part of
7 our core services that we offer the client
8 through the custody.

9 MR. PATSY: Rich, clarify for me. All of
10 our international equities are in some type of
11 commingled vehicle.

12 MR. McCONVILLE: Currently. Currently,
13 correct.

14 And historically you've had separately
15 managed international managers. You've recently
16 terminated them over the last couple of years.
17 And, correct, right now you're in commingled-fund
18 products. But as we know, class actions go back
19 several years sometime.

20 So in the event a Volkswagen, if you had
21 some holdings, we'd like historically to see if
22 you held them in any of those separately managed
23 accounts and then notify you.

24 CHAIRMAN SCHMITT: And what is the positives
25 or pluses of having the money manager get the

1 notification and not us?

2 MR. McCONVILLE: Well, I mean, I can answer
3 that one, Pat, I think.

4 I mean, you would be inundated with
5 paperwork.

6 CHAIRMAN SCHMITT: Okay.

7 MR. McCONVILLE: I mean, you know, for the
8 most part, when there's a class action, it's like
9 99.99 percent of the time the managers are
10 saying, Yeah, go. I mean, why wouldn't we?
11 There's very few that would opt out of a class
12 action. I can think of a couple instances where
13 somebody might.

14 You know, a large pension, like Ford Motor
15 Company pension. If they were the holder of Ford
16 stock and the stock had a class action, they
17 might not want to participate in the event
18 against their own -- you know, their own deal,
19 that company. But for the most part, investment
20 managers, 99.99 percent of the time, yeah,
21 they're just --

22 MS. McCAGUE: That would be on the domestic
23 cases, though, not necessarily the global cases?

24 MR. McCONVILLE: Correct. And the global
25 cases, we would be notifying -- we should be

1 notifying you when there's any issues because
2 your managers are no longer in place.

3 MR. KRULL: To Richard's point, and I agree
4 with what Richard is saying, what we are seeing,
5 with *Morrison v. NAB*, at that Supreme Court
6 level, that decision, I think a lot of global
7 accounts such as yourselves wanted to step back
8 and kind of see what was going to happen.

9 What we have seen is, I'm going to call it
10 an uptick, but I'm going to an asterisk next to
11 that. You know, there's about 22 to 25 counties
12 that allow group actions or opt-in actions or
13 individual actions that get grouped together, you
14 know, class-action-like activities. But we
15 aren't seeing activity in all these markets.

16 We're still -- depending on the scenario,
17 depending on the county, we're seeing more than
18 what we saw before, but we'll still not seeing
19 from our client base a massive uptick or a mass,
20 you know, uptick in the activities that our
21 clients are opting into these.

22 And I think what we're seeing is really a
23 lot of our clients, especially in the public fund
24 area, the foundation endowments areas, they're
25 kind of dipping their toe in the waters to really

1 see what their appetite is.

2 And what they're doing is they're kind of
3 relying on internal counsel, external counsel,
4 sometimes within those countries that allow these
5 types of activities to really fully understand
6 any sort of liabilities that they might have
7 associated; because in certain countries there
8 are some liabilities on the plaintiff side, any
9 costs that they have involved to them and, of
10 course, weighing that against any fees that might
11 be as part of these processes and whether those
12 fees are up front or whether they're contingency
13 fees on the back side.

14 So it's really -- there's a couple cases
15 like Tesco in the UK, Volkswagen in Germany and
16 the Netherlands, Royal Bank of Scotland in the
17 UK, there was Toyota in Japan, that were more
18 widely-held that are really, again, forcing some
19 of our clients to rethink what they do and how
20 they do it.

21 But also, though, we notified those
22 investment decision-makers as a default, because
23 typically speaking those same clients, to Rich's
24 point, didn't want to receive all the paperwork,
25 right? They hired those managers to make

1 investment decisions to them.

2 But we're starting to see some of those
3 external agreements between yourself and those
4 managers get refined a bit to perhaps not cover a
5 global type of litigation because the clients are
6 viewing it more holistically across all accounts
7 versus a claim-by-claim within individual
8 accounts like it was in the US.

9 Does that make sense?

10 CHAIRMAN SCHMITT: Yes.

11 MR. SCHEU: You said that the notifications
12 begin when there is a settlement. So what's the
13 time frame if we are asked to be a lead
14 plaintiff -- how does Northern Trust -- because
15 that's at the beginning of the lawsuit, as I
16 understand it.

17 So would you back up and explain the timing
18 on that, or whether you-all are involved and how
19 those decisions are made?

20 MR. KRULL: Sure, sure.

21 Well, depending on the type of litigation
22 will depend on when you get notification. So if
23 we're looking at those non-US litigations where
24 it's important for you to find out on the front
25 side, we will notify as soon as we learn of the

1 event.

2 Within the US itself, and I'm going to group
3 Canada in there as well, primarily the vast
4 majority of our clients are more interested on
5 the settlement piece and making sure that they're
6 participating at the settlement versus the lead
7 plaintiff stage.

8 MR. SCHEU: Before you go on, would you
9 explain --

10 MR. KRULL: What we're seeing, and we see it
11 especially in the public funds, as we have
12 clients like yourselves that have one or two or
13 even more law firms that kind of monitor their
14 assets, those lead plaintiff deadlines are really
15 more of a communication between the law firm
16 that's representing you or wants to represent
17 you, depending on the relationship, within a
18 given event versus on the back side of
19 settlement.

20 MR. SCHEU: What did you mean by event? Is
21 that the filing of the lawsuit or the action that
22 happened?

23 MR. KRULL: Either the filing of the
24 lawsuit, or if there's a lawsuit that's already
25 been filed where they're seeking lead plaintiffs,

1 additional lead plaintiffs to participate, those
2 are more conversations between yourself and that
3 law firm where Northern Trust could definitely
4 supply the activities within that time frame, but
5 that is in the vast majority of the relationships
6 that we carry.

7 MR. SCHEU: So, Stuart, do you-all provide
8 the function -- I'm trying to get at how we make
9 the decision to be lead plaintiff or not. That's
10 a lot different --

11 MR. McCONVILLE: That's with your law firm.
12 Yeah.

13 MR. SCHEU: So, Stuart, is that what you-all
14 do? How do we get notified that somebody wants
15 us to be a lead plaintiff?

16 MR. KAUFMAN: So we have several monitoring
17 firms that look at the portfolio and they will
18 look -- you know, if they have a particular case
19 they're interested in, they will look to see the
20 loss suffered by the fund, and then it would come
21 before you to determine whether or not you want
22 to participate as a lead plaintiff.

23 And usually there's a compliant filed and
24 then the lead plaintiff deadline would be two,
25 three months down the line. And any firms that

1 bring a plaintiff to the table with, you know,
2 the biggest loss, would file to be lead
3 plaintiff, and the court makes a determination
4 based upon the loss suffered by the individual
5 plaintiff who will go forward as the lead
6 plaintiff in that case.

7 But there's a particular threshold of loss
8 that the fund needs to see in a particular case
9 before they make a determination that they're
10 interested in participating as a lead plaintiff.
11 And I think it's six figures.

12 MR. SCHEU: Thank you.

13 MR. KRULL: To Stuart's point, we also see
14 that threshold of loss carry outside of the US.
15 So if you wanted to participate in Volkswagen,
16 for example, in Germany, the law firms that
17 represent these groups of individuals are also
18 looking for rather significant losses.

19 And typically, you know, it's six figures to
20 seven-figure Euro transactions and losses before
21 they'll typically represent you.

22 MS. McCAGUE: And just for clarification,
23 the current policy that the Board works with is,
24 if our --

25 MR. KRULL: And then, I guess, also to

1 clarify, you know, what Stuart was saying, the
2 assets that they're analyzing, within your group
3 of accounts at Northern Trust, what you do is you
4 actually authorize this law firm to receive those
5 transactions.

6 And then we can -- we will transmit them on
7 a monthly or quarterly or weekly basis so that
8 they're always receiving fresh data so that when
9 they're analyzing these events to the complaints
10 that are filed or if they're looking to bring a
11 complaint against a particular company on your
12 behalf, they have your data and access to it
13 already.

14 MS. McCAGUE: So the Board policy right now
15 is that in order to consider taking a lead
16 plaintiff position, our loss has to be at least a
17 hundred thousand dollars.

18 And then, in addition, the policy right now
19 is that the Board has authorized the executive
20 director and a member of the Board's audit
21 committee to make the decision on behalf of the
22 Board.

23 So one thing after Bill asked his question,
24 Richard, I wonder if you or Pat could talk about
25 what is the general state of the public pension

1 industry as it relates to lead plaintiff status?

2 MR. McCONVILLE: Pat, you want to start with
3 that one or do you want me to?

4 MR. McCAGUE: Hang on a minute. I think
5 Bill has a question.

6 MR. McCONVILLE: Hold on, Pat.

7 MR. SCHEU: Before you do that, so help me
8 understand.

9 If we're going to get notified -- let's say
10 we have a hundred-thousand-dollar loss and
11 there's a settlement. We're going to -- we're
12 going to reap whatever benefit from the
13 settlement fees.

14 What is the added benefit of becoming a lead
15 plaintiff? And I'm seeing Richard say nothing.

16 MR. McCONVILLE: Pat, right? I mean, lead
17 plaintiffs don't get extra money for being a lead
18 plaintiff.

19 MR. KAUFMAN: They -- well, this is Stuart.

20 If they particularly get to drive a
21 litigation, usually institutional pension funds
22 are in the best position to act as a plaintiff
23 because they're sophisticated investors.

24 Usually anytime that's spent by the
25 administrator or office staff would get -- you

1 would receive compensation for participating as a
2 lead plaintiff or any costs that you suffer
3 out-of-pocket.

4 So anytime that Beth would spend looking for
5 documents or being deposed or attending a
6 mediation would be -- the fund would receive
7 compensation for that as part of the settlement,
8 if it's ultimately settled.

9 MS. McCAGUE: And, Stuart, if I may, what
10 I've also --

11 MR. KRULL: This is Pat.

12 So, yeah, I was just going to reiterate what
13 Stu just said. So if you're spending money to
14 become a lead plaintiff, right, typically within
15 the settlement they will allocate those expenses
16 back to you.

17 But from a class perspective -- and Stuart,
18 please correct me if I'm wrong -- you know,
19 whether you're a lead plaintiff that joined on on
20 the front side or if you're a participant who
21 submitted a claim after a settlement -- assuming
22 there is a settlement, right; that's the big
23 asterisk there -- your compensation is based on
24 your losses, and it's a pro rata amount that's
25 based on those losses.

1 MR. KAUFMAN: Yes.

2 MR. KRULL: So you're not going to receive a
3 different amount or a higher amount from the
4 class as a harmed investor whether you
5 participate as a lead plaintiff or whether you
6 just merely submit a claim.

7 MR. KAUFMAN: Right. Correct.

8 MS. McCAGUE: However, there are two --

9 MR. KAUFMAN: But the thing is, I mean,
10 whether or not to participate as lead plaintiff,
11 if you have a loss of a million dollars and, you
12 know, another just individual investor has a loss
13 of a hundred thousand dollars and you don't file
14 for lead plaintiff status and they become lead
15 plaintiff, do you want someone with a much lesser
16 loss than you driving the litigation where you
17 suffered a much greater loss than the individual
18 plaintiff?

19 MS. McCAGUE: Two other points, and, Stuart,
20 you could chime in on this.

21 But two other points that it's my
22 understanding benefits to filing as a lead
23 plaintiff are, Number 1, that typically the
24 attorney compensation in an average case is about
25 a third, 33 percent. So if you're a lead

1 plaintiff, you have the opportunity to drive down
2 the legal -- ultimate legal expenses.

3 The second --

4 MR. KAUFMAN: Correct. You know, it's up to
5 the lead plaintiff to determine how much and
6 negotiate what figure that the attorneys would
7 ultimately be entitled to as part of the
8 settlement.

9 MR. McCAGUE: And then the last reason --

10 MR. KAUFMAN: So it's less than a third.
11 It's going to be probably, you know, somewhere
12 around half of that.

13 MS. McCAGUE: And then the last reason is
14 that in some cases -- in some cases that our
15 share class may be -- we may be the only person
16 in our share class who is coming forward to be
17 lead plaintiff.

18 MR. KAUFMAN: That's correct.

19 MR. McCAGUE: But my understanding is, that
20 isn't determined until you file to be lead
21 plaintiff and the court makes the decision.

22 MR. LUKASZEWSKI: And given the size of the
23 fund, and especially when you talk about
24 international investing, is there any possibility
25 that our loss would be anywhere near in the top

1 of losses? So, you know, it may be a moot point.
2 The lead plaintiff is probably never going to
3 appropriate.

4 MS. McCAGUE: Well, we have -- right now we
5 have three open cases. And in the past we had
6 five settlements where we have been lead
7 plaintiff.

8 MR. LUKASZEWSKI: Where we had to take the
9 lead?

10 MS. McCAGUE: And the three open right now
11 are Tower Insurance, which has settled but we
12 don't know -- nothing has been dispersed; NII,
13 which we understand has settled but we don't know
14 the settlement amount; and the third one where we
15 have just filed for lead plaintiff status is an
16 MLP, Plains All American, where initially we
17 filed to be lead plaintiff, but the Court said,
18 no, United Machine Workers as America had a much
19 bigger loss.

20 But then it turned out that United Machine
21 Workers didn't have the same share class that we
22 did. So we went ahead and filed.

23 MR. PATSY: Beth, question.

24 If we're a lead plaintiff and we as a fund
25 incur expenses as part of that lead plaintiff

1 roll, will we always get back those expenses that
2 we incur in the process, or will it be a
3 percentage?

4 CHAIRMAN SCHMITT: That's a question for
5 Stu.

6 Did you hear that question?

7 MR. KAUFMAN: No. If you could repeat it,
8 I'd appreciate it.

9 MR. PATSY: Yeah. Stu, this is Rick.

10 If we're a lead plaintiff in a case and we
11 as a fund incur expenses for whatever reason,
12 will we be -- is there a guarantee that we will
13 be reimbursed for those expenses?

14 MR. KAUFMAN: Yes. All expenses are
15 reimbursed by counsel who is acting on your
16 behalf.

17 MR. SCHEU: Is that whether or not the suit
18 is successful?

19 MR. KAUFMAN: Correct.

20 MR. SCHEU: So if you lose, you still get
21 reimbursed?

22 MR. KAUFMAN: That's correct.

23 MR. SCHEU: Okay.

24 MR. KAUFMAN: You wouldn't get -- you'd get
25 reimbursed for any out-of-pocket expenses with

1 regard to -- you know, if somebody had to travel
2 to New York for a deposition, you would get
3 reimbursed for all of that. But the actual
4 hourly time you would not get reimbursed for
5 unless there's a successful settlement.

6 MR. McCAGUE: So the hourly time --

7 MR. KAUFMAN: So, for instance, if -- you
8 know, if an airplane flight up to New York for a
9 deposition is \$500, you're going to get
10 reimbursed for the \$500; but you're not going to
11 get reimbursed the actual hourly fee of the
12 employee attending on behalf of the fund unless
13 the lawsuit is successful down the road.

14 CHAIRMAN SCHMITT: Do we have any other
15 questions on that topic?

16 MR. McCONVILLE: Okay. Pat, keep going.

17 MR. KRULL: Okay.

18 So on 548 essentially, again, now we're
19 focusing now on the securities-based litigations
20 that are settled within the US and Canada.

21 What we'll do is we'll work with the
22 particular claims administrator that's hired to
23 oversee the claims filing and distribution
24 process. There's about 20 of them.

25 So what we'll do is we'll meet with them,

1 we'll get the specific format that they're
2 looking for for Northern Trust to submit the
3 claim. And, again, we're submitting for
4 everybody who had activity within a given
5 security.

6 So we can be filing, you know, tens of
7 thousands or hundreds of thousands of individual
8 transactions, depending on how widely held the
9 security was across our databases.

10 So what we're doing is essentially creating
11 a glorified Excel spreadsheet. We're going to
12 encrypt it. We're going to password protect it.
13 We're going to burn it on a CD ROM drive. And
14 then we're going to drop it in a FedEx envelope,
15 and we're going to overnight it to that claims
16 administrator.

17 We're then going to give them the password
18 once we know they have the disk in hand. We're
19 going to ask them to open it and confirm the
20 number of lines of data that they have -- that
21 they see. So that way we know whenever we're
22 talking about that particular case, we're always
23 talking apples to apples.

24 And we do that because, you know, at any
25 given point in time, we're dealing with 3- to 400

1 different litigations that are at some various
2 stage, because these things take forever to pay
3 out, literally.

4 I've had distributions that have not had a
5 first distribution until over five years after
6 the original claim was submitted. That's not as
7 common anymore. We're seeing it shorter and
8 shorter.

9 On average we're probably seeing a first
10 distribution about 18 months after the initial
11 claiming period, and we're seeing it even
12 sometimes shorter, between 9 and 12 months.

13 What we're doing through reporting is we're
14 overfilling. So we're taking all of the data
15 that we have on hand. We're giving it to that
16 claims administrator for them to determine what
17 qualifies and what doesn't. We don't prequalify
18 here at Northern Trust. That way we have what's
19 called the reject letter, some sort of
20 notification from that claims administrator
21 telling us that, yes, this data qualified; here's
22 your check. Or, no, this data didn't qualify;
23 here's a letter reasoning out why.

24 We'll look at the letters. We'll review
25 them. And then we'll update reporting

1 accordingly so that you will know specifically to
2 your accounts at Northern Trust what's the status
3 of those claims.

4 Did they get rejected? If so, why and when.
5 Or did it receive payment? How much did you
6 receive and where did it post?

7 And that distribution is highlighted out on
8 slide 49.

9 At some point we're going to receive a final
10 distribution. On slide 50, we kind of highlight
11 that out. Normally it's after at least two to
12 three payments. I've had some distributions that
13 have gone out to four or five payments. And
14 we'll receive notice that this is a final
15 distribution.

16 At that point we're going to close the event
17 on our system. That still becomes visible
18 through reporting. It's just alerting you
19 through the status that, you know what, this one
20 is done; you're not going to see any more
21 distribution.

22 And what we'll do is we continue to audit
23 after every distribution so that we have either a
24 reject notice or a payment in hand so that we can
25 then close off that particular litigation.

1 As mentioned, we do work with an internal
2 audit group called the Control Team. That's our
3 day-to-day audit point. We also work with the
4 Northern Trust auditors on an annual basis.

5 I then also have my friends from the fed
6 that come in and they visit me to make sure that
7 we're doing everything that I'm telling you
8 you're doing. And many of our clients also hire
9 independent auditors who audit both your
10 processes internally and my processes internally.

11 Knock on wood, I've never been found to miss
12 a claim. I've never been found to miss an event.
13 So we have a pretty decent track record that we
14 want to keep going.

15 On slide 51 we talk a little bit about the
16 use of the other vendors. You know, obviously
17 folks like Stuart and his firm, they're more
18 actively involved on the front side. We don't
19 get involved in those unless you need something
20 specifically from us.

21 We don't try to project what any proceeds
22 are going to be, if you're going to receive any
23 proceeds. And we do that simply because we found
24 it's virtually impossible to do.

25 Until about a week or two before the actual

1 distribution of a settlement, a pro ration rate
2 will be struck. Until that pro ration rate is
3 struck, it's really a best guess as to what
4 you're going to receive.

5 And we would hate for you to tell -- you
6 know, to tell you that you're going to receive a
7 hundred-thousand-dollar payment when we found out
8 that the pro ration rate wasn't a hundred
9 percent, but it was more like 5 percent, or 5
10 cents on the dollar. So we would hate for you to
11 plan for X and then have to pay you Y.

12 We don't provide legal advice. That's
13 Stuart's job. So we don't tell you whether or
14 not to participate. And you guys have been with
15 us for ever, so we don't worry about the prior
16 custodian stuff any longer.

17 The next two slides, 52 and 53, I thought
18 are fun slides. It talks about the cash that
19 we're receiving.

20 The first slide, 52, is Northern Trust as a
21 whole. This is showing you the number of events
22 that we're filing on a given basis, comparing
23 that to the number of events that are getting
24 paid in the middle column, and the total amount
25 of those events.

1 As you can see, it's not uncommon for the
2 Events Paid to be higher than the number of
3 Events Filed. That's because, again, those
4 things can take 18 to 24 to 36 months to pay out.

5 So we're continuously paying out things that
6 we filed historically that go out beyond the year
7 itself. You can see that the total amount is
8 dropping year over year.

9 What we're seeing is -- even though this was
10 something that Northern Trust has historically
11 always provided to our clients, we're seeing more
12 and more third parties becoming involved, not
13 necessarily for our clients, but for clients --
14 other custodians that didn't offer such a robust
15 filing service; or, you know, for example,
16 brokerage accounts, things of that nature.

17 So the pool is becoming a big more diluted.
18 So, unfortunately, for our clients, because we
19 have more and more valid claims that are being
20 introduced, their portions that they're receiving
21 is becoming a bit more diluted and a smaller
22 slice of the pie.

23 Slide 53 are those proceeds specific to
24 Jacksonville Police and Fire.

25 MR. SCHEU: And all of these are --

1 MR. KRULL: The only difference from one
2 slide to the other is I'm showing you claims
3 filed versus events filed, meaning, Enron, you
4 might have had ten claims. So on your sheet,
5 you're going to see ten versus one on the
6 Northern Trust total.

7 MR. SCHEU: All these are through your
8 settlement notifications as contrasted with --
9 the lead plaintiff things are not in here, or are
10 they?

11 MR. KRULL: Well, that's a good question.
12 And my answer to that is, Well, maybe. So I'm
13 going to toot my horn for a moment.

14 Northern Trust is very highly thought of
15 within the external counsel world. And, Stuart,
16 feel free to debunk me.

17 But what we often see is if we have a client
18 who chooses to be lead plaintiff, that activity
19 is used within the case when the attorneys
20 involved are arguing for settlement.

21 Once it comes time that if the case is
22 actually settled, you still need to submit a
23 claim form and you still need to submit that
24 claim form timely. It wouldn't be uncommon for
25 our clients to -- or the attorneys representing

1 our clients who are lead plaintiffs to have
2 Northern Trust submit that claim, as we do
3 anyway.

4 MR. KAUFMAN: That's correct.

5 MS. McCAGUE: Bill and I can tell you based
6 on the research we did for the subcommittee of
7 the finance committee, all of the lead plaintiff
8 cases are in these numbers except for the initial
9 one that was filed in the early 2000s, and that
10 was known as Nextcard. When that case settled,
11 there were two checks that came in directly to
12 the fund.

13 MR. SCHEU: Okay.

14 Stuart, so in your experience, in a lead
15 plaintiff setting in one of these cases Beth has
16 mentioned, how much time would the administrator
17 spend on it for depositions or travel or
18 whatever?

19 MR. KAUFMAN: Depositions in the last case,
20 it was up in New York with John. We flew up the
21 afternoon before, and then the deposition was
22 maybe four or five hours the next day, and we
23 were home the next night.

24 So it was really a day-long process. And
25 that was really all that was involved in that

1 case. I don't believe that representatives from
2 the fund attended mediation before it was
3 settled.

4 MR. SCHEU: Thank you.

5 MS. McCAGUE: But what we don't know is what
6 went into preparing.

7 MR. KAUFMAN: It's not a lot of time at all.

8 MR. SCHEU: Thank you.

9 CHAIRMAN SCHMITT: Just a quick observation
10 on the events filed by Northern Trust in the
11 claims filed on behalf of Police and Fire Pension
12 Fund, going back to 2008, the number of claims
13 filed compared to events filed, Police and Fire
14 Pension Fund is a higher percentage of those
15 going back to 2008.

16 In recent years, it's getting, looks like,
17 smaller and smaller. Is that because -- or maybe
18 you can explain why you think that is. Do you
19 understand my question?

20 MR. KRULL: Without knowing the relationship
21 as far as individual trade activity, you're
22 looking at a couple different scenarios.

23 You could see one that if you are still
24 actively involved in individual securities
25 trades, it could be that the companies that the

1 investment managers are buying into just simply,
2 one, aren't getting sued, and maybe they're not
3 having losses, you know, which would take them
4 off the radar quite a bit.

5 But a more realistic scenario that we're
6 seeing across our client basis, especially in the
7 public funds, it wouldn't be uncommon for the
8 public funds to get out of more individual stock
9 and bond purchases and get more involved in
10 alternative investments or mutual funds,
11 commingled funds, things of that nature.

12 So in those particular cases, let's use a
13 mutual fund as an example. Let's say it's an S&P
14 500 fund. The fund itself is buying within those
15 S&P 500 stocks.

16 So if there's any loss or any class action
17 claim that's based on a security within the fund
18 itself, the fund is claiming that, not you as a
19 shareholder of the mutual funds.

20 CHAIRMAN SCHMITT: Okay.

21 MR. KRULL: So then it's up for the mutual
22 fund, then, to disburse those gains through class
23 action space however they're determined to do
24 that.

25 CHAIRMAN SCHMITT: Okay.

1 MR. McCONVILLE: Anything else you want to
2 cover, Pat?

3 MR. KRULL: You know what? I just -- I talk
4 about class action reporting. I'm not going to
5 bore anybody with that, but just to let you know,
6 we have an entire suite of reports that are out
7 there, so we can pretty much tell you everything
8 that we're doing holistically, at the universe
9 level, and then we can drill down specifically to
10 things that we're doing for Jacksonville Police
11 and Fire, and what's the result of those.

12 You know, it's things -- for example, you
13 would see what proceeds you received last year,
14 last quarter, last week. However you want it, we
15 can show you.

16 We could also run those into Excel and
17 pretty much sort them and illustrate anything you
18 want to see, even down to the individual
19 transactions that we're filing.

20 Looking forward, we're aware of the influx
21 of interest in the non-US markets. So we're
22 really working with different vendors to see what
23 can we provide you as our client with a more
24 robust product. And that's something we continue
25 to look to develop year over year.

1 MR. KAUFMAN: Just my two cents on that.

2 I think whenever there's an opportunity to
3 recover money, I think you have a fiduciary duty
4 as trustees to at least do the due diligence and
5 make a decision as to whether or not you want to
6 opt into one of these international cases.

7 If you're leaving money on the table where
8 all you need to do is opt into a particular case,
9 I think you have the duty to follow-up with that
10 and do the diligence, make a decision whether it
11 makes sense for the fund to participate in a
12 particular case.

13 MR. McCONVILLE: Anything else?

14 All right. Pat, you're done.

15 MR. SCHEU: When would we ever opt out? I
16 mean, what would be a reason to opt out if we
17 just participated in a settlement.

18 MR. KRULL: I don't typically list that. I
19 don't typically see a lot of clients opt out on a
20 regular basis.

21 A couple that come to mind, your losses
22 might be so great within a given security that
23 based on the advice of counsel, like Stu's, you
24 know, you might decide that it's better for you
25 to opt out of the event and pursue private

1 litigation than it would be to participate as a
2 class member.

3 We saw that from some of our public funds in
4 WorldCom a couple years ago. Something similar
5 but slightly different we saw with Adelphia.

6 A lot of times, this is when you're
7 combining activities within common stock as well
8 as debt securities that we see those losses
9 become so elevated, you know, like in the
10 multiple seven figures.

11 So going back to Adelphia, that, again, was
12 another litigation where we saw debt and stock
13 combined in settlement.

14 We have -- you know, you hire third-party
15 investment managers, external investment
16 managers, that also have other clients who are
17 similarly invested to yourself.

18 Occasionally what we will see is those
19 managers making decisions for all of their
20 clients saying, You know what? We see a group of
21 our clients who we all invested similarly have
22 very significant loses. So we as the manager are
23 going to hire counsel to represent our individual
24 clients.

25 And typically before they'll do that is

1 they're going to notify you and make sure that
2 you're comfortable with those decision.

3 MR. McCAGUE: And, Rich, as I understand --

4 MR. KRULL: But from a public funds
5 standpoint, those are really the only examples
6 that I could come with that would be pertinent to
7 you as a public fund.

8 MR. McCAGUE: But if I understood the issue
9 with the global transactions, that there could be
10 and probably would be costs to the fund to pursue
11 participation in class action, in which case we
12 may make the conscious decision that it's not
13 worth it, the loss wasn't big enough, or we don't
14 want to take the risk of fronting --

15 MR. KAUFMAN: Right. But I think we have to
16 duty to at least look into it.

17 MR. SCHEU: That's why I was asking the
18 question, was the fiduciary duty.

19 MR. KAUFMAN: See what the costs are and you
20 know, balance it against the loss. But, you
21 know, you have to make a decision because you
22 have to affirmatively opt in. There needs to be,
23 you know, some action by the trust and by the
24 fund itself.

25 MR. SCHEU: Well, let me ask related to

1 that, Stuart. When we opt in, that's to opt in
2 after it's settled?

3 MR. KAUFMAN: No. In the international
4 cases, you need to opt in at the beginning.

5 MR. SCHEU: At the beginning. Okay.

6 So if that's -- and I guess they're not all
7 going to be class actions. So that's where you
8 could have a separate lawsuit. But if it's a
9 class action, aren't we going to be subsumed into
10 that whether or not we have our own counsel?

11 MR. KAUFMAN: I don't believe so on the
12 international level.

13 MR. KRULL: It really varies from
14 jurisdiction to jurisdiction. To be quite frank,
15 this is where I see a lot of our public fund
16 clients really struggling to put their arms
17 around it and determine from a due diligence
18 perspective, right, what should they be doing
19 versus what they need to be doing in the future
20 compared to today.

21 You know, for example, in Germany, there is
22 not such a thing as a class action or group
23 action. It's all individual actions. And what
24 the judge overseeing the case will do is he'll
25 take those individual actions and he'll group

1 them together under one centralized ruling.

2 But then you look at Australia, and you have
3 something that looks and smells very similar to a
4 class action in the US. The only difference is
5 you have to opt in earlier than participating on
6 the settlement side.

7 But the other interesting part is each one
8 of these jurisdictions carry their own risks in
9 liabilities that are involved, right?

10 So it's really -- you know, from your
11 perspective you have to determine what's your
12 appetite to participate, and that's going to be
13 driven by the level of risk within each of those
14 different jurisdictions where you're actively
15 participating.

16 And then, really, you know, from your
17 standpoint, the law firms that -- you know, the
18 agreement that you're going to have to strike
19 with those law firms that are going to represent
20 you within those different jurisdictions or those
21 other entities, whoever they might be.

22 It's a challenge. That's for sure.

23 MR. SCHEU: I can see it would be. But in
24 those cases, we might -- I guess we'd have a fund
25 agreement -- like you already said, a funding

1 agent, so we would not be exposed to the costs,
2 even if we --

3 MR. KRULL: In some markets, but not all.

4 MR. SCHEU: Not all. Okay.

5 MR. KAUFMAN: I mean, if we want to look
6 into it further, I think we can have one of the
7 securities firms come down and just give, you
8 know, an hour presentation on the issues and then
9 you can make a determination whether it's
10 something you want to proceed forward with.

11 If we're in basically all commingled funds
12 on the international level, it might not make
13 sense. But, you know, we would have to review
14 that with our investment consultant.

15 MR. KRULL: And this is Pat.

16 I was just going to say, we can -- you know,
17 that's a very astute point, right? So depending
18 on the markets and how you're invested today
19 might determine how you move forward.

20 You know, Volkswagen, for example, does look
21 back eight years.

22 So what I can do is run a report and give it
23 to Rich that illustrates any event over the
24 last -- you know, you tell me the time frame, six
25 months, one year, two years -- all of the

1 different non-US events that were out there and
2 what was your exposure in those events to kind of
3 give you an idea about what your universe might
4 look like.

5 Of course, it's just an historical snapshot.
6 No idea what the future is going to hold, but if
7 you're moving out of those individual securities
8 trades, you know, it's a pretty good idea for you
9 as what you might have missed or be missing. You
10 still might be able to participate in those.

11 MR. LUKASZEWSKI: Has the fund been notified
12 by the individual managers who are managing
13 individual stocks of any of these foreign actions
14 so that the Board, in fact, can make a decision
15 as to whether -- or are they just making the
16 decision themselves and never notifying you?

17 MR. McCAGUE: I do not recall that we have
18 been notified of a nondomestic class action. I
19 do not remember, but I'll confirm that.

20 MR. LUKASZEWSKI: I just wonder what the
21 incentive for the individual managers is to be
22 aggressive in participating in those actions.
23 And they're not notifying you and you're not
24 being notified by Northern Trust, I mean, maybe
25 we ought to at least get a recap of what

1 notifications of any significance went to these
2 individual managers going back a number of years
3 so you can assess --

4 MR. McCAGUE: Going back how long, Mike?

5 MR. LUKASZEWSKI: Well, a number of years.
6 I'm not sure. But it sounds like you notify the
7 individual asset managers when there was
8 international action.

9 MR. McCONVILLE: Pat, do we notify the
10 international managers on these or do we just --

11 MR. KRULL: Yeah. Our notification process
12 is the same as it is for the US.

13 MR. McCONVILLE: Okay.

14 MR. KRULL: The biggest -- largest
15 difference is, if it's an opt-in case, we're
16 sending -- it's called an informational notice,
17 and the very first line is, Northern Trust is not
18 filing for this event.

19 MR. LUKASZEWSKI: All right.

20 MR. SCHEU: So you-all are monitoring as
21 best you can the international events. Also, an
22 event means in this case the filing of a lawsuit?
23 What's an event?

24 MR. KRULL: So what we'll do, let's use
25 Volkswagen as an example, right?

1 So every time we learn of a new Volkswagen
2 event, we're going to pull history so that we're
3 only going to notify those investment
4 decision-makers of those clients that would have
5 had activity during the time frame.

6 So that, you know, there's five different
7 events in Germany right now. We would have sent
8 out five individual notifications, one for each
9 event.

10 MR. SCHEU: So event in that case means the
11 action -- the act or omission giving rise to the
12 cause of action, not the filing of the cause of
13 action?

14 MR. KRULL: Correct.

15 MR. SCHEU: Okay.

16 MS. McCAGUE: So, Rich, Northern Trust will
17 pull that report, looking backwards for us?

18 MR. McCONVILLE: Yes.

19 MS. McCAGUE: Okay. Thank you.

20 MR. McCONVILLE: All right, Pat. I think
21 you're done.

22 MR. KRULL: All right. If you have any
23 further questions or you want that report, just
24 let Rich know. He knows how to find me and I'll
25 get it to you as quickly as possible.

1 MS. McCAGUE: Before Pat gets off the phone,
2 just one last question.

3 Can you tell us, for other public
4 institutions that you-all work with, is it
5 typical that they would be filing for lead
6 plaintiff status?

7 MR. KRULL: From my perspective, I have had
8 clients historically file. It's typically the
9 larger public pension funds. Those who have
10 filed, you know, full disclosure, they -- it can
11 be a bit cumbersome on their operations' staff.
12 And I'm indifferent.

13 So I just -- you know, Northern Trust is
14 your custodian. We're indifferent as to whether
15 or not you want to participate in that. We're
16 here. We can provide you all the data.

17 It's really, as you look into the smaller
18 shops, the smaller operations staff, that what I
19 see, you know, is everybody seems to be, you
20 know, understaffed and overworked, is the joke
21 that I also say.

22 So it's allocating the time of the staff to
23 be able to work to get the end result
24 accomplished. But, you know, there's some who do
25 it. There's some who enjoy doing it. And

1 there's others who don't. So it's really, you
2 know, what do you feel that you need to do?

3 To Stuart's point earlier, if nobody does
4 it, you might be missing the boat in a particular
5 security. You know, so some of my clients like
6 to be more active on that side, ensuring that
7 nothing is missed.

8 My other clients like to sit back and just
9 be more passive in it and just say, Well,
10 somebody else will catch it; they're bigger than
11 me. So it's six of one, half dozen in another.
12 Probably not the answer you're looking for.

13 MS. McCAGUE: No, that's good. Thank you.

14 MR. McCONVILLE: Okay. Pat, now you're
15 done.

16 MR. KRULL: All right, guys. Take care.
17 Again, thank you for your time, and I appreciate
18 speaking to you today.

19 MS. McCAGUE: Thank you, Pat.

20 CHAIRMAN SCHMITT: Thank you.

21 (Mr. Krull exits the conference call.)

22 MR. McCONVILLE: Anthony, are you on still?

23 MR. PECCATIELO: Yeah, I'm still on.

24 MR. McCONVILLE: Okay. Anthony is going to
25 cover our commission management process and then

1 answer any questions of industry that you might
2 have. That portion of the presentation starts on
3 page 36.

4 MR. PECCATIELO: Hi, all. I just want to
5 start off by thanking you for having me here
6 today. Just to go -- before I jump into the
7 slides here, just to give a brief info.

8 My name is Anthony Peccatielo, going on four
9 years here at Northern Trust. I work on a team
10 of three who runs our commission management
11 business, which, of course, includes the
12 commission recapture.

13 With that, we can start into, as Rich
14 pointed out, page 36. And specifically 37 we'll
15 start the information. I'll just run through
16 these slides real quick here. There's not a
17 terrible amount of information on here, and then
18 we can open up for questions and more detailed
19 responses.

20 But looking at the first slide, you see just
21 some of the highlights of our program. You know,
22 we have an extensive broker network which I'll go
23 into more detail on a few slides later;
24 centralized client servicing team, which I'm, of
25 course, a part of.

1 The big thing is the timely crediting of
2 rebates. Those happen on the 15th of every
3 month. And then, you know, of course, the proven
4 expertise. We have over 280 clients currently in
5 our program.

6 Just to move on to the next slide, 38. This
7 goes over a very high-level process of how the
8 program works. Essentially you would be
9 providing a direction letter to your managers.
10 That direction letter, of course, is something
11 that we provide the template. That direction
12 letter will notify your managers about our
13 program.

14 Once they're notified, we can -- we will
15 touch base with them, give them all the details
16 of our program, give them our broker network, and
17 really answer any questions that they have. Once
18 that happens, they can start directing into that
19 broker network.

20 Once trades have been directed into our
21 network, we'll be notified. We'll also provide a
22 copy of the trades that were directed by those
23 managers from the brokers.

24 From there, there's a process on our end in
25 which we essentially make sure all the trades

1 have been allocated properly and all the
2 commissions have been -- essentially everything
3 has been processed accordingly, so per your
4 agreement, all the commissions have been
5 calculated according.

6 And then essentially you would get that
7 rebate. And as I mentioned before, it's a very
8 timely -- it's the 15th of every month.

9 MS. McCAGUE: Rich, could you ask Anthony to
10 just back up a minute and talk about what -- how
11 the commission recapture occurs.

12 MR. McCONVILLE: Anthony, did you get that?

13 MR. PECCATIELO: So how the commission
14 recapture occurs. Are you talking about how like
15 the -- essentially how from like once the trade
16 is directed in the program to how the -- from
17 that point to when it's rebated?

18 MS. McCAGUE: Yes.

19 MR. McCONVILLE: Yes.

20 MR. PECCATIELO: So that's basically -- just
21 going back. So slide 38. What happens is, is
22 that the manager, your manager, will be notified
23 by you via the direction letter about our
24 program. That manager will then -- that's what
25 I'm saying. We'll touch base with that manager.

1 Typically we receive a copy of that direction
2 letter that you would have sent the manager.

3 That's our cue to say, Okay, well, this
4 manager has been notified of the program. We can
5 then call them. We can go over the details, let
6 them know any of our contacts that we have in the
7 broker-dealer network, of which they can decide
8 how they would set up their accounts.

9 So what would happen is, they would
10 establish an account at that broker-dealer, an
11 account with them, but they would -- typically
12 it's -- there's like a hard code that they can
13 put on the account, whether it's like in the
14 prefix or in the account profile, some sort of
15 indication that whenever they trade and it's
16 allocation into this account, it's for our
17 program.

18 That broker, that says, Okay, well, we have
19 all these trades that have been flagged for your
20 program. We also have a side agreement with that
21 broker, you know, for them to be in our network.

22 So what they do is they send us files of the
23 trades that they know from the investment manager
24 were directed for our program. That file -- we
25 then take those files. You know, we have a

1 process in place of making sure that, you know,
2 per the agreement, we're getting the right
3 amount, the correct trades have been directed,
4 make sure they're for our program, the brokers
5 have kept their right amount, and essentially
6 they're sending us the right amount.

7 We then have the process -- we have a
8 database that keeps track of all this. From
9 there, we have an agreement with you, the client,
10 on the split from how much percentage of that we
11 keep to how much percentage you would get out of
12 that. You know, that's -- we work that out in
13 what's called the appointment letter.

14 From there, that's when on the 15th -- as I
15 mentioned before; it's very timely -- on the 15th
16 of every month you would then receive those
17 proceeds.

18 MS. McCAGUE: Okay. And could you tell us,
19 please, for the benefit of the fund, is the fund
20 better off just to tell the money manager, Go get
21 the best execution you can; or is the fund better
22 off to say, We set up recapture agreements and we
23 want you to do your trades through this partner
24 so that we get a rebate? Which is better, or are
25 they --

1 MR. PECCATIELO: Well, actually, the process
2 that we have set up is, we don't want to
3 interfere as a broker with best execution that
4 the manager would be providing.

5 Also we don't necessarily want you to have
6 to -- I mean, essentially you can, but we don't
7 want to imply that you would have to tell them,
8 Hey, trade, this is how it's going to be; you
9 have to trade within our network.

10 But I will say, though, and I'll touch on it
11 in the next slide, our extensive broker network,
12 that when we look at it, a lot of times these
13 managers are already executing within our
14 network.

15 So they've already done their due diligence.
16 They're already -- this is already part of their
17 best execution. They're already trading with
18 them.

19 You would just be you simply telling them,
20 Hey, once you're executing -- you're aware of our
21 program, you're already executing with these
22 brokers. You need to, as I mentioned before,
23 flag these trades, which is something a manager
24 would know how to do and we can honestly touch
25 base with them, with that broker to say, Hey, I

1 executed this trade with you, but this -- part of
2 this commission is flagged for Northern Trust
3 Commission Recapture Program.

4 MR. McCONVILLE: So if your manager -- if
5 you look at page 39, here's the list of brokers.
6 If your manager's using a broker that's not on
7 this list, we're not here to say, Stop using that
8 broke, don't use them, only use these. That's
9 not what we're telling anybody to do.

10 If they're using these brokers in their
11 normal course of business, then we would be able
12 to recapture some of the commission for you.

13 MS. McCAGUE: All right. Well, for
14 instance, we are using Convergex. We are using
15 CAPIS. And we're using --

16 MR. McCONVILLE: Well, it's your managers
17 that would be using them.

18 MR. McCAGUE: Yes, the managers. And we are
19 getting commission recapture checks from those
20 firms.

21 MR. McCONVILLE: So what we would be doing
22 is we would be collecting it for you and posting
23 it to your paid receipts account on the 15th of
24 every month.

25 MR. PECCATIELO: That's correct.

1 MR. McCAGUE: All right.

2 MR. LUKASZEWSKI: You're getting those
3 checks directly as opposed to --

4 MR. McCONVILLE: Yeah, because you're not
5 using our program.

6 MR. McCAGUE: Up to this point --

7 MR. LUKASZEWSKI: Oh, we're not using it.
8 All right.

9 MR. McCONVILLE: No, you're not using our
10 program.

11 MR. McCAGUE: Up to this point, we've been
12 receiving checks in the form of payment. But as
13 a result of the research that we conducted in
14 response to the subcommittee of the finance
15 committee, we have at least moved to ACH for
16 receipt of those payments.

17 MR. SCHEU: So I didn't feel like your
18 question was answered. Why don't we just
19 negotiate the best fee going in --

20 MR. McCONVILLE: Well, I think they are.
21 Your managers are. I mean, they're working with
22 these brokers and saying penny and a half or two
23 cents or whatever it is. But if it's above a
24 certain amount, they then rebate us a portion of
25 that commission back to you. That's basically

1 all it is.

2 MR. PATSY: Right. But depending on the
3 manager -- if you have a commission recapture
4 agreement in place, depending on the manager,
5 they make feel obligated to trade to support the
6 commission recapture program.

7 And I don't think this question has been
8 answered, but a commission recapture, very simply
9 is, when a manager does a trade with a broker, he
10 may pay a commission of, say, 6 cents per share,
11 for example.

12 That commission recapture broker will in
13 turn rebate 3 of that 6 cents to the commission
14 recapture program, and Northern Trust returns
15 rebates back to us.

16 Best execution, on the other hand, we may
17 get to trade down in 3 cents and the commission
18 recapture thing doesn't happen at all. So which
19 is better?

20 I go back to it depends on the manager,
21 because certain managers have certain programs in
22 place where, instead of doing the trade for 3
23 cents with X-Y-Z broker, they're going to get it
24 done with A-B-C broker at a penny, or something
25 along those lines.

1 But when you tell them to participate in the
2 commission recapture program instead of doing the
3 trade per penny with A-B-C broker, they're going
4 to do the trade at 6 cents for X-Y-Z broker and
5 you're going to get 3 cents back and you're going
6 to get the execution at 3 cents effectively.

7 So I've always referred to this -- and this
8 is not the best way to refer to it. It's a
9 legalized kickback for doing trades with --
10 through this program. Like I side, it's not the
11 best way to refer to that.

12 MS. McCAGUE: We would agree.

13 MR. PATSY: But that's effectively what it
14 is. It's perfectly legal. ERISA supports it.
15 There are safe-harbor provisions associated with
16 it. It does give funds away to pay for things
17 that we wouldn't normally have the wherewithal to
18 pay for it.

19 I always lean towards best execution because
20 there's no ambiguity and it's fully transparent.

21 MR. SCHEU: Well, when you say "best
22 execution," does that put a duty on the
23 investment manager to really find what the best
24 execution is?

25 MR. PATSY: Yes.

1 MR. SCHEU: Okay.

2 MR. PATSY: And he -- in large caps stocks,
3 it's -- you know, there's not a lot of margin
4 there as far as trade commission is concerned.
5 Small cap, on the other hand, that's where if
6 you're doing a -- looking for a particular stock,
7 not everybody can execute that trade effectively.
8 And small cap managers have a tendency to -- I've
9 seen they have higher commission costs because
10 that's what the broker is charging them. It's
11 complicated sometimes.

12 MR. LUKASZEWSKI: Well, is best execution
13 not a requirement of the managers anyway?

14 MR. McCONVILLE: It should be. If you think
15 about it, they're managing your assets.

16 MR. LUKASZEWSKI: Right.

17 MR. McCONVILLE: And so part of best
18 execution is part of, you know, whatever
19 benchmark you've set up for them to meet or
20 exceed, their overall goal is to be -- within the
21 risk parameters that you set up is to be doing
22 what they were hired to do, and part of that
23 would be best execution.

24 MR. TUTEN: Does Northern Trust have a list
25 of each manager's broker?

1 MR. McCONVILLE: I mean, I can run you a
2 report historically with your current managers
3 and even your old managers, what brokers they're
4 using, how much they ran through, and what the
5 average cents per share was.

6 And basically that's what we do when we do
7 an evaluation. That's where we kind of -- you
8 know, I understand exactly what you're covering.

9 But in the event that your managers are
10 currently using these brokers, you're not telling
11 them to do anything different in your normal
12 course of trading, you can get some incremental
13 income back.

14 MR. SCHEU: Is there a fiduciary duty to do
15 both? Because you might miss it. You might miss
16 something. If you instruct your dealer -- your
17 manager to execute for the lowest possible, he
18 may not -- he or she may not be able to get the
19 same broker, so that if it's in this program, is
20 there some sort of duty to make sure you've
21 covered both sides of it?

22 MR. PATSY: It can be challenging.

23 What I've done in the past is you can get --
24 for example, some of our consultants can do a
25 transaction -- what's called a transaction cost

1 analysis, and you can see outside of the
2 commission recapture program exactly what each
3 broker is trading, what kind of trading costs
4 you're incurring.

5 I have a mixed bag of managers. Some say
6 best execution is the only way to go for us. If
7 you want a commission recapture, we're going to
8 have to step out of our normal process and do
9 something else.

10 I have other managers that say, Hey, we can
11 do commission recapture and it won't affect
12 negatively your performance. It's strictly up to
13 you. So it's a mixed bag.

14 My preference has always been best execution
15 just because there's no ambiguity, it's
16 transparent, and there's no score keeping that
17 you have to do as far as any kind of recapturing.

18 CHAIRMAN SCHMITT: It sounds to me -- and
19 correct me if you think I'm off track here.

20 It's a little bit like active manager versus
21 passive accounts where there can be benefits to
22 either or both, but unless you analyze each
23 transaction, there's really no way to know it for
24 sure. Is that accurate?

25 MR. PECCATIELO: I could say that's correct.

1 MR. McCONVILLE: I mean, I would echo your
2 words. I mean, if I'm hiring a manager, you'd
3 better be doing best execution.

4 I mean, first and foremost, if there's a way
5 to get something back -- you know, some
6 incremental money as a result of that trade going
7 through a Black Rock or Convergex.

8 If they're doing it for 3 cents and they
9 say, Okay, we'll give you back a penny of that
10 per share; yeah, we'll send a penny back to you,
11 because whatever they're doing it for, research
12 or whatever they're doing it for, they'll say,
13 Well, we'll give some of that back to you.

14 MS. McCAGUE: And, Rich, if you looked at
15 our peers, others in the public pension business,
16 would you say by and large they're using
17 commission recapture for a least a portion of
18 their trades?

19 MR. McCONVILLE: I think a lot of them do.
20 I mean, a lot of them do it outside or some do it
21 inside as well. You saw the list. I think we
22 have like 280 clients in our program right now.

23 But there are a lot that started the
24 programs a long time ago outside --

25 MS. McCAGUE: Like we did.

1 MR. McCONVILLE: Yeah. And so to make that
2 change, like, Well, we're in a commission
3 recapture program; we'll just keep doing what
4 we're doing.

5 The issue here is, though -- I mean, the one
6 thing that we do have is the reporting is good
7 and the consistency of posting the proceeds where
8 you see them every month. Here's what you're
9 getting and here's your managers. Here's what
10 they're doing through the program so you can have
11 a conversation with them.

12 You know, this manager is utilizing it a
13 lot. This one doesn't utilize it at all. He
14 might say, because if I utilize this program for
15 the portfolio that I'm managing, I'm not getting
16 the best execution.

17 MR. SMITH: Is commission recapture included
18 in the fees that we pay for Northern Trust or is
19 it something --

20 MR. McCONVILLE: No. This is completely
21 outside of custody because you're not utilizing
22 us for this program right now. We're not doing
23 any commission recapture for you. You've hired
24 other firms to do that.

25 MR. SMITH: Okay. So who does it for us

1 now?

2 MS. McCAGUE: We use Convergex -- several
3 names on this list. We use Convergex. We use
4 CAPIS and we use Knight. We also have a contract
5 with Abel/Noser.

6 MR. SMITH: But these are broker-dealers
7 that are --

8 MR. McCAGUE: They pay us by check.

9 MR. McCONVILLE: So your managers are doing
10 trades and utilizing them to recapture -- to
11 recoup the commissions.

12 MR. McCAGUE: Right.

13 MR. SMITH: So this is a service that we
14 don't take advantage of --

15 MR. McCONVILLE: At Northern. You take
16 advantage of it, but not through Northern. You
17 take advantage of it --

18 MR. SMITH: I meant through you.

19 MR. McCONVILLE: Correct.

20 CHAIRMAN SCHMITT: Is there some
21 independence issue? In other words, if we
22 transferred this to Northern, is that clouding
23 the independence issue with Northern?

24 MR. McCONVILLE: No, I don't -- I don't
25 think so. Not at all. I mean, you're just --

1 we're not here to say, Managers, you've got to
2 run all your trades through our program. We're
3 not telling them to change anything.

4 We're just saying that if they do use these
5 brokers and there's a chance to recoup
6 commissions, send it to Northern and then we
7 collect the money for you and post it. It really
8 is that simple.

9 MR. LUKASZEWSKI: What percentage of the
10 recapture does Northern keep versus --

11 MR. McCONVILLE: Depending on the volume.
12 Anthony, what's the normal split?

13 MR. PECCATIELO: It would be about 80/20.
14 So we keep 20 percent, and then 80 percent would
15 go to you guys.

16 MR. LUKASZEWSKI: And with 100 percent in
17 the case of Convergex, would you presume it to be
18 the same percent that you're getting 100 percent
19 of now, or is your recapture agreement with
20 Convergex --

21 MR. McCONVILLE: How much do they keep --

22 MR. LUKASZEWSKI: -- less than what Northern
23 would get? I mean, you signed an agreement with
24 them to say, I want 50 percent of the commission
25 back as a recapture. Are we getting 50 percent

1 with our side agreement with them? Do you know
2 what I'm saying?

3 MS. McCAGUE: I know what you're saying. I
4 don't know the answer to the question. I'll find
5 out.

6 MR. LUKASZEWSKI: Someone had to negotiate
7 an agreement with them --

8 MR. McCAGUE: Right, right.

9 MR. LUKASZEWSKI: -- and I guess you could
10 try to negotiate an agreement individually with
11 every one of these brokers or any number of
12 brokers for recapture, but I guess volume does
13 play into what you're dealing with.

14 MR. McCAGUE: Right.

15 MR. McCONVILLE: And then you're chasing --
16 and it's a lot of paperwork and a lot of
17 administration trying to track all the different
18 players.

19 MR. LUKASZEWSKI: So it's an 80/20 split
20 with Northern?

21 MR. McCONVILLE: That's what we would quote.
22 I don't know what your current commission --

23 MS. McCAGUE: I can't tell you.

24 MR. SMITH: You would have to look at the
25 staff time and employee time to do that. Is it

1 enough of a savings if you guys were tracking it,
2 right?

3 MS. McCAGUE: That's correct.

4 MR. McCONVILLE: See, with Northern, it
5 would be zero time you would be spending on it
6 because we have the reports for you.

7 MS. McCAGUE: Right. And right now, in
8 truth, we're not spending much time on it because
9 the checks come in and they're deposited. Now
10 the ACH will be automatic.

11 But in terms -- there could be some value in
12 having a regularly produced report where we look
13 to see, what is the money that's coming in from
14 each of our managers, who do we need to call to
15 say, why is the revenue for your source down this
16 month, and we have not done that.

17 MR. SMITH: And if we assumed we were
18 getting 100 percent from CAPIS and Convergex that
19 you mentioned, who's to say we're not missing
20 other opportunities and maybe it was a good value
21 to pay the 20 percent to get some that we didn't
22 know that we should have been getting.

23 MS. McCAGUE: It could be.

24 MR. SMITH: So there's a lot of questions
25 that we need to look at going forward.

1 MR. SCHEU: And how do we audit that they
2 did it right? How do we -- that would take
3 administrative time to go back and check.

4 MS. McCAGUE: That would take a tremendous
5 amount of administrative time, and we sort of got
6 into that as a result of responding to the
7 finance committee.

8 MR. SCHEU: Right.

9 MR. McCONVILLE: I've had clients who have
10 outside commission. Well, Northern, tell me what
11 the trades is represented. You know, I'm not
12 sure. I have no idea.

13 MR. SCHEU: Sure. The next question is, are
14 we sure we got all we're supposed to get under
15 these commission agreements?

16 CHAIRMAN SCHMITT: Sure. And the discussion
17 kind of turned towards, how do we know that the
18 current ones that we're using, the current
19 brokers that we're using for the commission
20 recapture, are calculating that correctly?

21 And they are monitored by agencies, you
22 know, the SEC or whoever. There are auditors
23 that audit that. There's no way we could go
24 around and audit each of the brokers who are part
25 of this plan.

1 But one of the options I think we've opened
2 up here maybe for further discussion is to
3 transfer this commission recapture, if we choose
4 to continue to do it, to Northern Trust where
5 they already have our other records and certainly
6 can provide us those detailed reports down to the
7 transaction, if needed.

8 MR. McCONVILLE: Correct.

9 CHAIRMAN SCHMITT: As already part of their
10 system.

11 MR. TUTEN: I think -- before we get into
12 all that, I think the first step is to kind of
13 take it back another -- get a list of the
14 managers, check yes or no, do you participate in
15 commission recapture; what broker do you use; do
16 they participate? And just overall, how many
17 shares have you traded in the last year, two or
18 three years?

19 Because one of the things when we used to
20 interview, like, large cap money managers, it was
21 really staggering to me how long they actually
22 kept some of these stocks. They didn't just --
23 six months, Hey, I'm getting ready -- I mean, it
24 was like two or three years.

25 Really? I thought you guys did more work

1 than that, but obviously they explained why they
2 didn't just churn and burn. So I think we're
3 going to have to compare apples to apples as far
4 as individual managers because they may be
5 getting the best deal.

6 Now, if they can't prove it on paper, you
7 know, I'm not one to criticize anybody until I
8 have to, you know, but they may actually be doing
9 the best, whether it's the best execution --
10 because I know when we fired managers, we've
11 given them wiggle room before to, hey, you know,
12 just -- we don't want them to just liquidate it
13 now because they may not get the best deal. You
14 know, we'll give them some time to get rid of it
15 when they think they can get the best deal.

16 So your job, Rich, would be to maybe just
17 compile a list of our managers --

18 MR. McCONVILLE: Absolutely.

19 MR. TUTEN: -- how many trades they've
20 made --

21 MR. McCONVILLE: I can go back how many
22 years. I can go back five years. I can go
23 back -- right now, like tomorrow, I can go back
24 and get you two years worth of data because
25 that's what we have on our system.

1 I can go back and run history, which is an
2 extra date, and then I can go back seven years,
3 eight years.

4 MS. McCAGUE: So you could show us what
5 trades they've actually made and give us --

6 MR. McCONVILLE: And commissions and the
7 brokers they used --

8 MR. McCAGUE: That's right. And give us an
9 estimate of what we probably should have
10 received. We can tell you what we have received.

11 MR. McCONVILLE: It will show you the total
12 commissions you paid per year.

13 MR. McCAGUE: Right.

14 MR. McCONVILLE: And I'll just stick with
15 the current existing managers. I mean, if you
16 ever wanted to look at some of the ones you
17 terminated for fun, but the current ones are the
18 ones you would be focused on.

19 MR. SMITH: Can you show us what we would
20 have recaptured had we participated in the
21 program?

22 MR. McCONVILLE: You do a --

23 MR. PECCATIELO: Yeah. I have a -- it looks
24 like -- so I ran some numbers just for basically
25 a rolling 12 months, and it was based on the same

1 split that -- the 80/20 split.

2 What I did is I looked at -- there was a few
3 managers that I have received. Out of those
4 managers, I looked for ones that were -- had --
5 were generating enough commissions, and at a rate
6 that was high enough where there would be some
7 commission to recapture.

8 And so looking at that, it looks like there
9 was four managers that appeared to be generating
10 a sufficient amount of commissions and at a high
11 enough rate.

12 And so -- after -- once we factored in that,
13 and I took a look -- again, because we didn't
14 want to get in the way of best execution. So I
15 took a look at the brokers that these managers
16 are using, and if they were in our program, I
17 essentially included it.

18 And with that said, it looks like the
19 commissions came back to, this would be the
20 rebates; this is what you would have expected
21 throughout the course of the previous year, you
22 would have received as a whole, \$10,415.95.

23 And this is an assumption based on the
24 managers executing within our network and
25 directing 30 percent of those trades specifically

1 for our program.

2 MR. SMITH: So it's an educated guess?

3 MR. McCONVILLE: But that's interesting,
4 Anthony, because their commissions have been
5 higher than that.

6 MR. PECCATIELO: Yeah. The one thing -- I
7 mean, their current providers could have some
8 different brokers within their network. And it's
9 an assumption. I mean, the direction could be
10 much higher or lower. I'm not sure.

11 But essentially the higher the direction
12 level, the higher the commission, the higher
13 percent per share and higher -- you know, just
14 relatively speaking, the more commissions that
15 would be able to be recaptured.

16 It's not necessary good or bad. You know,
17 it's just that's the reality of it. You know, in
18 a lot of cases, the managers could already be
19 executing at fairly low rates with those brokers
20 and there's not much to recapture.

21 MS. McCAGUE: I will say that we went back
22 and ran a history of what we had actually
23 received. And, of course, five or six years ago,
24 the fees were -- the rebates were over \$200,000.
25 The share price to transact has come down over

1 the years, and so you could expect that the gross
2 amount would fall. But last year it was still
3 over a hundred thousand.

4 Is that right, Devin?

5 MR. CARTER: Yes.

6 MS. McCAGUE: And we're tracking along right
7 now, I think, at 66,000, so far year to date.

8 MR. McCONVILLE: So we will get a look at
9 the numbers again, Anthony, just to see where
10 they might be substantially higher than what
11 we're projecting.

12 MR. PECCATIELO: Yeah, we can take a look.

13 You know, it is -- I have seen -- I mean,
14 that's at least with the industry. There is that
15 general trend -- downward trend, you know, and
16 that's based on just the general commissions and
17 the rates of which they're executing.

18 But, yeah, I would be curious to see what
19 brokers are in their network, what brokers they
20 are executing, if they're not in our network, or
21 what direction level those managers are going.
22 Because, I mean, that's -- really, when it comes
23 down to -- I mean, the commissions are the
24 commissions, you know, and the rates are the
25 rates which they're executing at.

1 But who their -- you know, if there's a few
2 other brokers that are not within our network and
3 they're executing a good majority -- if they're
4 executing trades with him or, you know, directing
5 at a higher level, you know, that would -- that
6 would -- it's not something I would know when
7 doing my analysis, and that would, you know,
8 really affect the amount of rebates projected.

9 MS. McCAGUE: Right. I believe that the
10 amount -- the biggest partner here is Convergex,
11 and I believe it's 90 percent of our trades -- 90
12 percent of the recapture business is coming from
13 the Convergex trades, trades run through
14 Convergex.

15 MR. PATSY: But, Beth, that's still close --

16 MR. PECCATIELO: I mean, it could -- you
17 know, if they're that much being direct -- you
18 know, if they're directing that much, you know,
19 that would be, of course, higher than the 30
20 percent assumption level.

21 MR. PATSY: It still flows through the
22 Northern Trust system, doesn't it?

23 MR. McCAGUE: The trades do.

24 MR. McCONVILLE: The trades do, but not the
25 commission recapture.

1 MR. PECCATIELO: Yeah, because we're not
2 currently the provider of the CR program.

3 MR. PATSY: I got it. That makes sense.

4 MR. McCAGUE: Thank you, Brian.

5 MR. PARKS: Thank you.

6 (Brian Parks exits the workshop meeting.)

7 MR. PATSY: I'm fairly certain we could
8 direct Summit to do a transaction cost analysis
9 and they can analyze whether we're really getting
10 value from our commission recapture program
11 versus, you know, best execution, because that
12 hundred-thousand dollars that we earned last
13 year, could we have done a better job with best
14 execution? Yes, we wouldn't have gotten that
15 hundred-thousand-dollar check, but we might have
16 gotten more --

17 MR. McCONVILLE: In the trade itself.

18 MR. PATSY: -- in total returns in the
19 portfolio.

20 MS. McCAGUE: Thank you.

21 MR. SCHEU: How do you determine whether
22 it's best execution? How do you do that?

23 MR. McCAGUE: I think -- I think Summit
24 Strategies can help us with that discussion.

25 MR. PATSY: It's a data-mining thing, for

1 lack of a better way to put it.

2 People like Summit have extensive databases
3 that they can either -- they generate themselves
4 or the purchasing from some other service.

5 It's hard, because if I do a trade with you,
6 I might be getting best execution all the way
7 across the board by anybody's definition.

8 But then, again, I might be doing a trade
9 with you, and because you're giving me research,
10 because you're giving me public insight -- so
11 you're not doing anything illegal, you're giving
12 me specific insight into that particular company,
13 you might have particular access to a larger
14 number of shares at a little bit better price
15 because you've got a distressed seller or an
16 urgent seller, all those things come into play in
17 best execution, but how do you get that out of
18 the data, you know?

19 MR. SCHEU: Yeah.

20 MR. TUTEN: Well, Summit might be a good one
21 to talk to, Dan Holmes --

22 MR. McCONVILLE: Yeah.

23 MR. TUTEN: -- you know, he should be able
24 to tell us, you know, how many of his clients
25 participate in commission recapture.

1 MR. PATSY: Well, I think public plans in
2 general tend to participate in it. It's more of
3 a legacy thing. In the days when commissions
4 were much higher, it was much more lucrative.

5 By the same token, public plans used to rely
6 on hard dollars for their budgets. Well, you'd
7 have to go to the committing authority to get
8 your budget approved, but you would ask for, you
9 know, Bloomberg's, other analytic software,
10 trying to do your job the best you can. And they
11 say, No, the budget is this; you're on your own.

12 So the public plans, they would create this
13 commission recapture program --

14 CHAIRMAN SCHMITT: To fund some of that.

15 MR. PATSY: -- and they paid for, you know,
16 real expenses for the plan. But historically it
17 was kind of off the balance sheet.

18 MR. TUTEN: Yeah. Well, I think too, I
19 think probably Rich could probably do that too,
20 is find out how many actual public plans out
21 there participate in commission recapture.

22 And I think we have to kind of look at it
23 the opposite way of what we're thinking. In
24 other words, instead of saying, Well, if we just
25 did best trade instead of just commission

1 recapture, would we have saved or made more money
2 or saved more money because they didn't divert it
3 to this broker instead of this one.

4 But you have to kind of almost look at it
5 the other way, too, as far as, Okay, if we were
6 strictly best practice, best trade, whatever you
7 want to call it, are we really talking -- because
8 like you said, 10 thousand bucks.

9 I mean, me, personally, I don't think it's
10 probably going to be a deal breaker either way;
11 but we want to make sure too the people that
12 we're using, you know, do they give us a discount
13 if it's over X amount of trades? Maybe that's
14 why we use them so much, because then instead of
15 paying a penny, we're paying a quarter of a penny
16 or whatever.

17 But I think the initial thing of find out
18 who does what and how much for us, then I think
19 we'll take it down the rabbit hole a little
20 further.

21 MS. McCAGUE: Right.

22 And just one other point on commission
23 recapture. This is one area along with
24 securities litigation monitoring firms that we
25 are able to engage with minority-owned

1 businesses.

2 So, for instance, Convergex is considered a
3 woman-owned business. So I just put that on the
4 table.

5 MR. McCONVILLE: Any other questions for
6 Anthony?

7 (No response.)

8 MR. McCONVILLE: Okay. Anthony, you're
9 done.

10 MR. PECCATIELO: All right. Thank you,
11 guys. Thank you for having me.

12 MR. McCAGUE: Thank you, Anthony.

13 (Mr. Peccatielo exits the conference call.)

14 CHAIRMAN SCHMITT: We have one piece left;
15 is that correct?

16 MR. McCONVILLE: Yes.

17 CHAIRMAN SCHMITT: Denice, are you okay to
18 continue?

19 THE REPORTER: I am.

20 MR. McCONVILLE: I'll be brief, because I
21 know we're getting about an hour and 40 minutes
22 in.

23 I'll start on page 1. I'm just going to
24 briefly cover Northern Trust and some of the
25 services that we offer to you. And then, you

1 know, as you've gone through this type of an
2 exercise, some of the other topics that might
3 come up during this, if you want to go into more
4 in-depth detail or get more information, I'd be
5 happy to either have somebody call in, come down
6 and talk about the subject.

7 So for those who don't know, I'm on page 2.
8 Northern Trust. We've been around since 1889, 127
9 years. Our business focus is very unique in
10 terms of we do two things, primarily two things.

11 We do asset servicing, which is the custody
12 piece; and we do asset management, the investment
13 piece. And we do that for the corporate
14 institutional side, which is the public funds
15 side, you know, and foundations, endowments,
16 insurance companies, corporate pension plan; and
17 then the wealth management side, very
18 sophisticated, multi-million-dollar individuals.

19 So that's our component. That's what we do.
20 At Northern Trust, that's all we do.

21 We have one technology platform that we
22 deliver all of our information through and that's
23 Passport. And I'll talk a little bit later about
24 why that's helped us as a firm, only having one
25 system to be updating for costs.

1 Page 3. You know, I told you what Northern
2 Trust does. And this is what Northern Trust does
3 not do. We're not in investment banking. We
4 don't do subprime mortgages. We don't do credit
5 cards. We're not a retail bank. So, again, our
6 focus is on the custody piece and the investment
7 piece for our two sets of clients.

8 Page 4. I've just briefly talked on
9 financial strength. For 2015, total revenue was
10 \$4.7 billion, and our net income was 974 million.

11 Of that -- of our revenue, 60 percent is
12 derived from fee-based activities. So by having
13 that consistent number, we're able to, you know,
14 have consistent stable earnings year after year
15 after year so we can keep reinvesting in our
16 services, keep reinvesting in the technology,
17 keep rolling out new reporting capabilities,
18 regulatory reporting, and just overall accounting
19 custody and performance reporting that clients
20 continue to need as regulations keep getting
21 bigger and people need information faster and
22 faster.

23 I'll go to page 6. This is where we are now
24 located. When I first started, we were in
25 Chicago, New York and London. And we had offices

1 in Florida, Arizona for the wealth people who
2 moved to the warm weather.

3 We're now located in 23 locations across the
4 globe, and we have over 16,340 permanent staff.
5 We have also additional staff that work as
6 consultants and part-time. We have clients now
7 in 47 countries.

8 The operations now covers -- it's done in
9 Chicago, India. You know, we're consistently
10 doing work 24/7 on different asset classes and
11 different types of things, pricing of assets,
12 transactions around the globe. So we're working
13 24/7 for all of our client bases.

14 Page 7. This is a very big -- this segment,
15 Public Funds -- in our group we combine Public
16 Funds and Taft-Hartleys is our segment. This is
17 a very important segment for Northern Trust.

18 As you can see, 32 percent of the top part
19 of public pensions we have. In this space we
20 have about 165 clients, public funds and
21 Taft-Hartleys, and about \$500 billion of assets.

22 And Florida is -- we have a big presence in
23 Florida. We have 39 corporate clients in Florida
24 and about \$65 billion of assets. And we
25 currently have ten public funds in the state of

1 Florida. We're continuing to try to grow the
2 business where we have opportunities.

3 This is an area that's been growing for
4 Northern Trust over the last three years. We've
5 had -- we've added 33 new clients to this segment
6 in the last three years. And it's been
7 primarily -- the reasons that we're being given
8 that we're winning the business is client
9 servicing.

10 Our client servicing level -- because that's
11 what we do. We keep growing clients one at a
12 time. We're not merging with other companies.
13 Client servicing is a critical portion of our
14 service, and we're being awarded with new
15 business. During that time we've only lost four
16 clients.

17 MR. TUTEN: Who is your biggest competitor?

18 MR. McCONVILLE: There's two. Two of the
19 biggest ones are State Street and Bank of New
20 York. JP Morgan is in there too. But, I mean,
21 from all three, we've been taking a lot of
22 business over the last three years.

23 MR. TUTEN: What does State Street offer on
24 commission recapture?

25 MR. McCONVILLE: No idea. No idea.

1 MR. TUTEN: Just feeling it out. Trying to
2 save money.

3 MR. McCONVILLE: No, no. They offer the
4 same services, you know, custody-wise and
5 investment products and securities lending and
6 all the different components that we do.

7 They're into a lot more different components
8 than Northern. Our focus is strictly on the
9 custody piece.

10 So I'm going to turn to page 9. This is the
11 service team that helps support the process.
12 Myself and Claudiu Besoago are your day-to-day
13 contacts. We're in the middle. You know, we're
14 here to help you on your day-to-day context,
15 questions on reporting, questions on making fee
16 payments to managers, paying any expenses, hiring
17 new managers, firing managers, adding new asset
18 classes, new management. That's what we're here
19 to do.

20 If you look at the top left, your Investment
21 Management relationship person is Melissa Galla.
22 She's there to help you with any questions you
23 might have from the investment products that you
24 currently utilize with Northern Trust. And if
25 you ever need any investment information in

1 general, she's there as a support person.

2 We have an accounting person dedicated
3 solely to do your monthly and annual reporting.
4 On the right side you see Pat Krull, Class
5 Actions. You heard from him today. And Don
6 Anderson is the contact for Securities Lending.

7 And I have sections in here about securities
8 lending and investment management that I'll talk
9 very briefly about today. If you want to have a
10 bigger dialogue on either of those two, we can
11 certainly have them address that as well.

12 Page 10. I thought it would be nice to see
13 a snapshot of what we're doing for you and what
14 accounts that we have.

15 These are the accounts that you have set up
16 at Northern Trust Company, from your cash
17 account, which is your paid receipts account, all
18 of your investment managers, your domestic
19 equities, international, domestic fix, real
20 estate.

21 These are the accounts that you have set up
22 at Northern Trust. These are the accounts that
23 we're providing reporting for you on a daily
24 basis, on an annual basis.

25 These are the -- this is where -- if you're

1 going to be terminating a manager, you know,
2 these are the accounts that you would be
3 terminating. If you're going to hire a new
4 manager, whether it's separated managed or a
5 commingled fund, you'd work with us to set up
6 that account.

7 Page 11. These are the services and the
8 broad solutions that we provide to clients. I've
9 bolded the ones that you currently utilize at
10 Northern Trust.

11 So starting at Asset Processing, you know,
12 the custody, the nuts and bolts of it, the
13 safekeeping of your assets, your separately
14 managed accounts. Your assets are held at
15 depositories, and we're reconciling that on a
16 daily basis with managers and all the holdings.

17 The settlement of trades. You know, your
18 investment managers are buying and selling
19 securities on a daily basis. We're working with
20 them to settle the trades. We get the security
21 in. We pay money out or on the reverse. We're
22 getting the money in and delivering the security
23 out.

24 We collect income for you. We work with
25 your investment managers on corporate actions,

1 tax reclaims and class actions.

2 Moving up to the line, Asset Reporting, this
3 is where we provide you with the monthly and
4 annual reporting to Devin and your team as well
5 as your auditors.

6 Anytime anybody -- and at any time you have
7 questions or information about class actions,
8 we're there to provide you with the reports and
9 the information that you need outside of the
10 normal, you know, basic set of reports that we
11 provide to you.

12 The next section, Asset Enhancement,
13 securities lending, which is a big service that
14 we're providing to you, as well as cash
15 management.

16 We -- your investment managers don't spend
17 every single dollar every day. They leave some
18 cash in the accounts and that cash earns money in
19 one of our collective funds; all the way up to
20 the Asset Management where we're managing three
21 accounts for you in a passive way in a commingled
22 fund product.

23 MR. SCHEU: What is securities lending?

24 MR. McCONVILLE: Securities lending is with
25 your separately managed accounts where your

1 managers have assets, securities, that borrowers
2 need for various reasons, whether they can use it
3 for hedging strategy -- and this is where I would
4 bring down Anderson to talk at a higher level.

5 MR. SCHEU: I see.

6 MR. McCONVILLE: They may need to cover a
7 trade. And rather than going out and buying it,
8 they can borrow it and settle the trade today
9 without incurring costs and then delivering it
10 back to you when the deal is over.

11 MR. SCHEU: What's the security for the
12 loan?

13 MR. McCONVILLE: Pardon me?

14 MR. SCHEU: What's the security for the --
15 if I loan you my security --

16 MR. McCONVILLE: Okay. So we act as your
17 agent. So you're the -- you know, the borrower
18 comes to borrow 10,000 shares of a stock. So
19 they borrow -- and let's say that stock is worth
20 a million dollars.

21 So what we do is we take cash or
22 securities -- 102 percent cash collateral of the
23 value of your securities that we deliver out.
24 And then we reinvest that cash in a very -- like
25 a 287-type mutual fund.

1 And the borrower then -- in a lot of
2 instances, the borrower will pay 10, 20, 50, 100,
3 sometimes a thousand basis points for a stock
4 that they need, the hot stocks, the small caps.

5 And so we're out there lending for all of
6 our different clients. We collect the
7 collateral. We mark-to-market that collateral
8 every day. So if the value of the stock is going
9 up, we recall -- we go to the borrower and say,
10 You need to give us more money.

11 If the value of the stock goes down, they
12 may come back to us and say, You can give us some
13 of the money back.

14 MS. McCAGUE: What's the duration of those
15 investments?

16 MR. McCONVILLE: Of the loan or of the
17 investments?

18 MS. McCAGUE: The loan.

19 MR. McCONVILLE: It varies. It can be --

20 MR. McCAGUE: Typically short term, though.

21 MR. McCONVILLE: -- a couple of days. It
22 can be weeks. It can be as long as the borrower
23 wants to have it out there. We negotiate the
24 time frames and then -- and Don can talk more
25 about that perspective.

1 MR. PATSY: As a result of 2008, did we
2 incur any losses?

3 MR. McCONVILLE: No. So six months prior to
4 the meltdown when Bear Stearns went out of
5 business, you pulled out of the lending program.

6 MR. PATSY: Oh, okay. That was good.

7 MR. McCONVILLE: Yeah. I mean, but the
8 lending program that you were in, the core
9 collateral, none of --

10 MR. PATSY: So we pulled out in 2007?

11 MR. McCONVILLE: Whenever Bears Stearns -- I
12 think it was --

13 MR. PATSY: 2008?

14 MR. McCAGUE: 2008.

15 MR. McCONVILLE: Yeah. Early in April, I
16 think, like, four or five months before
17 everything hit. So somebody had their eye on the
18 risk.

19 MR. PATSY: When the crash collateral at the
20 time was in a pool?

21 MR. McCONVILLE: Yes. But the pool that you
22 were in, Core USA, clients that stayed in the
23 program the whole time did not incur any losses
24 because what we did, when the market collapsed
25 and we had to put, like, a liability on clients'

1 books because the dollar -- the value of the
2 collateral pool went below a dollar.

3 So we paid \$150 million cash to the
4 participants based on the level in the program.
5 And then we also increased the split that they
6 were -- so if you were on an 80/20 split, we gave
7 you an extra 20 percent for a year.

8 Those two things offset any losses of the
9 securities. We had Lehman and a couple other
10 securities in the portfolio. Those two -- those
11 two steps that we took from the clients that
12 stayed in the program, they incurred no losses.

13 MR. PATSY: What's the split that we get?

14 MR. McCONVILLE: I think you're at -- you're
15 either at 80/20 or 75/25. I'm not sure off the
16 top of my head. I would have to go back and
17 look. I'll find out the split.

18 MR. PATSY: Okay.

19 MR. McCONVILLE: Any other questions on
20 lending?

21 Okay. I'll turn to that section. That's
22 what I was going to cover, just briefly. If you
23 go to page 18, currently we have -- and this is,
24 again, if you ever wanted to have the topic
25 full-blown discussion, I would have Don Anderson

1 come. And, again, on the investment piece too.

2 There's a lot of information in here about
3 the program. We have 382 participants, about
4 \$112 billion of loans currently outstanding.

5 The top ten borrowers right there, Goldman
6 Stacks, Morgan Stanley, JP Morgan, I think they
7 represent about 75 percent of the volume, 70 to
8 75 percent of the volume.

9 And then I'll just go to the page -- the fun
10 page. Again, a lot of this information is what
11 Don would cover. Page 24, which was your 2015
12 earnings. So your net earnings participating in
13 the plan for the year were \$637,771. So that's
14 actual cash that goes into your paid receipts
15 account for 2015.

16 That also helps me -- being in this program
17 helps me keep the custody fee as low as it is.
18 So you get a benefit -- so not only are you
19 getting cash -- cash that you can use for
20 whatever purposes running your plan, it also
21 helps me keep the custody fee as aggressive as we
22 do.

23 MR. LUKASZEWSKI: You mentioned that the
24 securities could be long -- a longer period of
25 time. Does that limit the manager --

1 MR. McCONVILLE: No.

2 MR. LUKASZEWSKI: -- from trading this
3 security?

4 MR. McCONVILLE: No. That's a good
5 question.

6 So your investment manager, we don't -- they
7 don't know what securities you have out on loan,
8 nor do they really need to.

9 If they do a sale of the security that is
10 out on loan, what we do is we have a cuing
11 process. We have, you know, several hundred of
12 the clients that may hold that stock.

13 So if your manager then goes to sell it, we
14 reallocate that loan to a different borrower.
15 And if there was ever a stock that we couldn't
16 get back, we continue working from the borrower,
17 we give you sell-fail protection on the trade?

18 MS. McCAGUE: You'd give us what, please?

19 MR. McCONVILLE: Sell fail. So if we can't
20 deliver the stock because it's out on loan and
21 we're having trouble getting it back, we cover
22 the buyer, any losses, you know, that might be
23 incurred from a cash perspective.

24 And then the last page, I'm going to cover
25 with the securities lending on page 26.

1 Here's your top ten securities that were out
2 on loan and the earnings that you received. So
3 if you look at the \$637,000 that you earned in
4 2015, these ten holdings derived almost half of
5 the revenue.

6 And, again, so I don't know these companies
7 particularly, but -- so a borrower comes in and
8 says, We want Carbo Ceramics; we need to borrow
9 it to cover our hedge or to cover a trade or
10 whatever. And they'll pay 3-, 4-, 5-, 600 basis
11 points for that security just to borrow it.

12 MR. PATSY: Rich, just for our edification,
13 let's take these first one, Carbo Ceramics.

14 MR. McCONVILLE: Yeah.

15 MR. PATSY: The average spread over on the
16 right-hand side is almost a thousand basis
17 points --

18 MR. McCONVILLE: A thousand basis points.
19 So that's what --

20 MR. PATSY: -- so that's what we're
21 earning --

22 MR. McCONVILLE: -- for the borrower saying,
23 I need that stock; I want that stock. And
24 Northern's Securities Lending team negotiates
25 that rate on your behalf.

1 So this stock goes away. Obviously the
2 lending earnings go down, but maybe there's
3 another stock that -- you know, during the year
4 2016, if this one falls out of favor, there's
5 another stock that, you know, reaches the top.

6 MS. McCAGUE: But that's -- that last column
7 is annual, right?

8 MR. McCONVILLE: Correct.

9 MR. LUKASZEWSKI: That's basis points?

10 MR. McCONVILLE: Yes. That's what the
11 borrower is willing to pay it hold that security.

12 MR. TUTEN: You got to have it, you got to
13 have it, baby. Pay the man. I'm glad I'm not
14 doing it. That would make me nervous.

15 MR. McCONVILLE: So I know we're at the end
16 of the time. I just, you know, briefly wanted to
17 cover custody, some of the different products,
18 you know, the lending products and the investment
19 products. There's more information in here.

20 If there's ever a topic, you know, you want
21 to cover, when you're meeting with your
22 consultant, if there's an investment strategy,
23 we've got information, not just Northern products
24 but the industry as a whole, what we're seeing is
25 trends in investments. We can provide any type

1 information that you want.

2 I hate to hesitate to just throw everything
3 at you. The topics of commission recapture and
4 securities litigation came up, so we're working
5 with Beth over the last month or so, providing
6 the information that you're looking for.

7 If another topic like securities lending or
8 investments or anything else that comes up,
9 regulatory reporting -- the GASB 72 seminar that
10 we're having this Wednesday, I think it's this
11 Wednesday -- where you're going to be needing to
12 file, you know, for your regulators, if there's
13 ever questions on that type information, we will
14 be happy to have you talk to our folks.

15 MS. McCAGUE: That's that video conference,
16 right?

17 MR. McCONVILLE: Correct. And we'll have a
18 replay of that as well available.

19 MR. TUTEN: What's the average -- do you
20 know the average holding time on a stock?

21 MR. McCONVILLE: On a loan?

22 MR. TUTEN: Yeah, on loan.

23 MR. McCONVILLE: It varies. I mean, I
24 don't --

25 MR. TUTEN: You don't have to -- no, don't

1 worry about it, Rich. I was just curious. I
2 didn't know if it was for a day or two or a month
3 or how --

4 MR. McCONVILLE: Sometimes it's just to
5 cover a trade real quick. Sometimes it's a
6 hedging strategy where they might keep it a
7 couple of weeks. In that instance, where they're
8 paying a thousand basis points, I'm assuming
9 they're holding it for as long as they can.

10 MR. TUTEN: Nice.

11 MR. McCONVILLE: But we negotiate the time
12 frame with the borrower. And, you know, as it
13 expires, we would reach out to them and say, Are
14 you -- do you want to re-up? Do you want -- I'm
15 not sure of the exact -- if we do a week, two
16 weeks, three weeks, open-ended. That I can find
17 out, though.

18 MR. TUTEN: The longer they hold it,
19 obviously, the more they pay?

20 MR. McCONVILLE: Yeah. And, again, as that
21 stock price fluctuates, if it's going up, we're
22 collecting more collateral, you know, to protect
23 in the event of a -- you know, the two areas when
24 the market melted, people were worried about
25 borrower default when Lehman defaulted. We had

1 no issues getting securities back or taking the
2 collateral and buying the securities back in any
3 instances that that occurred.

4 MR. PATSY: But think about why somebody
5 borrows the stock.

6 MR. TUTEN: Well, they're hedging, usually.
7 It's probably a hedge fund of some sort or --

8 MR. PATSY: Because they sold that stock
9 short.

10 MR. McCONVILLE: Yeah.

11 MR. TUTEN: Yeah. Well, that's true.

12 MR. PATSY: Okay? And the reason they sold
13 that stock short is because they think it's going
14 to go down.

15 MR. TUTEN: Right. They're going to make a
16 profit.

17 MR. PATSY: And we're a long-only manager,
18 so we're hoping that stock goes up.

19 MR. TUTEN: Sure.

20 MR. PATSY: So they're undercutting the
21 long-term prospects of that company or that
22 stock, potentially.

23 MR. TUTEN: Yeah, I agree in principle. I
24 think you've got a lot more problems with the
25 stock market, like, technical, slash, computer

1 traders, flash crashes. I think long term that's
2 a much bigger problem than someone's opinion on
3 whether or not the stock is going to go up or
4 down and how it affects us.

5 I mean, I agree with what you're saying. I
6 understand in principle you're saying we're
7 basically helping someone rob our own house by
8 leaving the front door open.

9 MR. PATSY: Right.

10 MR. TUTEN: I don't know, like we talked
11 about with the other, how much -- what percentage
12 of that actually affects us when we do this and
13 that. That's for people with a lot more time on
14 their hands than me.

15 But I agree with you in principle. I
16 just -- maybe I'm not as conflicted as you are,
17 Rich, when it comes to that.

18 MR. PATSY: No. There's -- it's a
19 two-bladed sword. It really is.

20 MR. McCONVILLE: And our guys can talk about
21 how securities lending helps the liquidity in the
22 market and different things. That's where it
23 gets way beyond my scope of --

24 MR. TUTEN: Yeah. I don't get paid enough
25 to worry about it that much.

1 MR. PATSY: Right. I mean, in the grand
2 scheme of things, this is not a big position for
3 us.

4 MR. TUTEN: Well, when I get back to the
5 fire station, I'm actually going to Google Carbo
6 Ceramics and find out just what the deal is with
7 that one. I want to find out what the hot --
8 somebody was hot for teacher on that one, baby.

9 MR. PATSY: Yeah. At 10 percent, that
10 stock's got to go down a bunch for this guy to
11 make money.

12 MR. TUTEN: That's what I'm wondering.

13 MR. McCONVILLE: So what was funny was, so
14 we were at Oklahoma (inaudible) this year and
15 Don's going through his presentation and he shows
16 his top ten holdings. And the person goes, Hey,
17 where's X-Y-Z stock? It was the one from the
18 previous year that they had highlighted and they
19 no lodger held it. Another one had replaced it.

20 It was, Man -- you know, the same questions.
21 Why is this stock now hot and this one isn't and
22 this and that --

23 MR. TUTEN: What I'm going to try to find
24 out too is that's large cap -- it's probably
25 small cap.

1 MR. McCONVILLE: Yeah.

2 MR. TUTEN: And, you know, with small cap,
3 you get into a whole nother world of crazy with
4 traders and, you know, this, that and the other.

5 But, yeah, that's still a lot of money even
6 for a small cap. It's 175 grand. I mean, you
7 know, that's probably a lot of shares. I'm going
8 to find out.

9 MR. McCONVILLE: And, again, you can -- for
10 the lending program, if there's a borrower in our
11 program that you don't like, that you don't want
12 us to do business with, we can eliminate them.

13 If there's certain limits that you wanted to
14 put on the program or -- you know, sometimes I'll
15 get a call from a client saying, Hey, this
16 manager wants to pull these five holdings out of
17 the program. There's either -- for whatever
18 reason, we can do all that.

19 MR. KOWKABANY: Do we have those parameters
20 now? Do we have --

21 MR. McCONVILLE: No, not right now you
22 don't. I don't know -- I mean, I can always find
23 out what your cap rate is and, you know, what's
24 on loan and some of the information would be in
25 there as well.

1 MR. TUTEN: I'm looking at the -- I don't
2 see a date as to when this happened. Do you-all
3 have the actual date when -- okay, this is from
4 January to December. Okay.

5 MR. McCONVILLE: Yeah. It's through the
6 course of the year. That's how much that stock
7 earned during the year.

8 Now, we can shrink the time to see when
9 it -- you know, did it happen the first quarter,
10 second quarter, third quarter --

11 MR. TUTEN: Right. Well, that's what I was
12 just curious. I know I saw WWE up there and I
13 know they've had some problems, you know, and
14 their stock has kind of gone all over the place,
15 you know, wrestling and all.

16 But, you know, the Cable Vision one was
17 interesting, but I can't remember if they had
18 some sort of merger they were trying to pull or
19 something.

20 MR. McCONVILLE: Sometimes that's what we
21 see.

22 MR. TUTEN: Yeah. That's why I was just
23 curious to look at their stocks. I'm figure to
24 figure out why they were doing what they were
25 doing. I got bored. Sorry.

1 CERTIFICATE OF REPORTER

2
3 I, Denice C. Taylor, Florida Professional
4 Reporter, Notary Public, State of Florida at Large,
5 the undersigned authority, do hereby certify that I
6 was authorized to and did stenographically report the
7 foregoing proceedings, and that the transcript, pages
8 3 through 109, is a true and correct computer-aided
9 transcription of my stenographic notes taken at the
10 time and place indicated herein.

11 DATED this 29th day of March, 2016.

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14 Denice C. Taylor, FPR
15 Notary Public in and for the
16 State of Florida at Large

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