JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: August 28, 2015

TIME: 9:00 a.m. to 12:05 p.m.

PLACE: Jacksonville Police and Fire Pension Fund
One West Adams Street
Suite 100
Jacksonville, Florida 32202

BOARD MEMBERS PRESENT:

Larry Schmitt, Board Chair
Richard Tuten, III, Board Secretary
Adam Herbert, Trustee
Nathaniel Glover, Jr., Trustee
Walt Bussells, Trustee (via telephone)

ALSO PRESENT:

John Keane, Executive Director-Administrator
Debbie Manning, Executive Assistant
Robert Klausner, Board Counsel
Paul Daragjati, Board Counsel
Devin Carter, Controller
Joey Greive, Fund Treasurer

Dan Holmes, Summit Strategies
Chris Keller, Summit Strategies

Amanda Bonifay, GKS Financial Advisors
Vince Carrodeguas, GKS Financial Advisors

Tracy Musser, Thompson, Siegel & Walmsley
William Bellamy, Thompson, Siegel & Walmsley

These agenda matters of the regular meeting of the JPFPF Board of Trustees came on to be heard at the time and place aforesaid, when and where the following proceedings were reported by:

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August 28, 2015 9:05 a.m.

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CHAIRMAN SCHMITT: I call the meeting to order.

MR. KEANE: Everyone please rise and join us in a moment of silence for our deceased member, Ronald L. Davidson, a retired police officer.

(Pause)

MR. KEANE: Amen. Please remain standing and join me as we pledge allegiance to the flag of the United States of America, and to the Republic for which it stands, one nation, under God, indivisible, with liberty and justice for all.

Thank you very much. Please be seated.

Mr. Chairman and Trustees, Trustee Bussells is going to join us by phone. Debbie is going to dial him in, and as soon as we make the connection, we'll start the agenda.

(Off the record)

MS. MANNING: All right. Can you hear us okay?

MR. BUSSELLS: Very well. Thank you.

MR. KEANE: Mr. Chairman and Trustees, we have a number of folks here this morning, and for the record, we would like to go around the table.

Before we start introducing people, I would like to take this opportunity to introduce Devin Carter, who is the fund's new controller. He replaced Kevin Stork, who was selected by Mayor Curry to become the city comptroller.

And we'll let Devin take a couple minutes and tell about his background and we can welcome him aboard.

Devin.

MR. CARTER: Good morning, everyone. My name is Devin Carter.

I'm a CPA. I have been with the City for 11 and a half years. Mainly by experience has been in the Finance Department working in Fund Accounting, and that consists of financial statement preparation and audit.

And then, of course, I'm here and I'm glad to have the honor, the opportunity to be here.

I'm currently also going to Georgia Tech. I'm working on a finance degree. I currently have a degree in accounting, but, of course, to round everything out. So I'm happy and excited about that.

Again, I look forward to being here and working with anyone.

MR. SCHMITT: Well, welcome aboard and thank you for coming on such short notice.

MR. GLOVER: Welcome, Devin.

MR. CARTER: Thank you.

MR. KEANE: And we have representing -- Councilmember Tommy Hazouri has been designated as the council liaison -- his aid. Councilmember Hazouri is at the budget hearings this morning.

MS. BUSBY: Hi. I'm Jenny Busby. Tommy couldn't be here, but I'm here to take notes for him. Thank you.

CHAIRMAN SCHMITT: Thank you for coming.

MR. KEANE: And we have the fund treasurer here. We also have Dan Holmes, Bob Klausner and Paul Daragjati.

We have a lengthy agenda here this morning. So without further adieu, we'll go ahead right into the consent agenda.

MR. KLAUSNER: Will there be any public comments?

MR. KEANE: Debbie, do you have any public comment cards?

MS. MANNING: I don't believe so.

No, I think we're good.

MR. KEANE: Open and close the public period, Mr. Chairman.

MR. SCHMITT: Public speaking period open. No cards. Motion to close it or we just go ahead and close it.

MR. KEANE: Close it.

Our first presentation this morning is we have Amanda Bonifay from our outside auditors, are here.

MR. CARRODEGUAS: Thank you.

My name is Vince Carrodeguas. I'm a partner with GKS. We've been engaged to conduct an agreed-upon procedures report, which we're prepared to report today.

We have the report with us. The report is officially in draft form. So draft form, subject to change, subject to input from management. And we're prepared to give it out to you today for your review.

(Report distributed.)

MR. CARRODEGUAS: We have a PowerPoint presentation, but I guess we will just make the presentation right from the draft copy that you have.

A few things that I want to go over just to lay the ground work for the report.

First of all, you know, we were engaged specifically to do only this engagement, the agreed-upon procedures engagement. So we are not the auditors of the fund, although our firm has extensive experience in auditing public employee retirement systems, mostly in South Florida. We have approximately 30 of those clients.

So we're in this space, and typically we're in that auditor role, but in this case we are not in the auditor role. Okay.

So this report does not render any opinions. We did not conduct any audit procedures. We did not conduct any review procedures. This is a very specific sargable space called an Agreed-Upon Procedures Report.

So what we did is we reviewed a couple of pension files. He had conversations with Mr. Keane and Mr. Bussells, and then we came up with recommended procedures. Those procedures were agreed to by the client through Mr. Keane and Mr. Bussells, and then that's why the report is called an Agreed-Upon Procedures Report.

The report -- we give no -- we give no

consideration to the sufficiency of the report or the comprehensiveness of the procedures. So in reading the procedures and reading the reports, if you go through it and you think, Well, maybe we should have expanded the scope; maybe we should have done this; maybe we should have done that, the purpose of the report is specifically not to exceed the mission or the purpose of the report.

So that report can't be any more or any less than the procedures we conducted. So if there's other procedures that we want to conduct, certainly when can do them. We can expand the scope. We can test more.

But specifically in our case we tested, I believe, approximately 28 pension files. So if there's a thought that it should have been 200, certainly we can do 200. But in this case we decided an agreed-upon for 20.

Any questions so far on that?

CHAIRMAN SCHMITT: And this was specifically focused on DROP participants?

MR. CARRODEGUAS: Yes, sir.

Amanda Bonifay is an assurance director in our assurance department, and she's going to take you through the report.

MS. BONIFAY: Good morning, Everybody.

Let's start by looking at just page 3 of the report. It starts with Independent Accountants' Report on Applying Agreed-Upon Procedures.

This report summarizes what Vince just told you, that our engagement was to only do the procedures that we're about to go through, nothing more.

If you turn to page 4, this is where he get right into our Procedures and Findings, which we're going to jump right into.

So the first two procedures were what's set forth, who we would select and how many we would select for the procedures. So it was requested that Richard Barrett, Bobby Deal and Richard Lundy be specifically included in our testing, and we did that.

Number 2 asked us to select 10 percent of the DROP participants entering the DROP during three years.

GSK, our firm, selected the three years from the period. We selected randomly 2001, 2007 and 2013. And we selected 10 percent, using a random number generator, of each of those populations.

So it was whoever was entering the DROP during those years. That came out to 25 random selections, plus the three listed in Number 1, for a total of 28.

Procedure 3 indicates what we'll perform for each of those 28 selections. 3a and 3b are just procedures related to gathering data about each participant.

So we requested copies, or in some cases looked at originals for some that we came here. We did part of our procedures from our office based on copies, and then we also came here to look at some of them so that we were looking at originals and we can work face-to-face with the team as well.

So the first two procedures, (a) and (b), are about gathering data. So we're just looking at the forms, gathering their DROP commencement date, their DROP termination effective date, the employment date, the date of birth, the distribution election, just so that we can use that in our calculations.

3c deals with recalculating the average monthly salary used to calculate the benefit that was received, the retirement benefit, that was received and went into the DROP. So we were able to recalculate the average salary in each case.

And then if you turn to page 5, we comment on the period that was used to calculate this average salary.

So first we're including what Ordinance 121.201 states. It states that, "Members shall be entitled to a time service retirement benefit equal to a maximum of 80 percent of the average salary received by the member for the 52 pay periods immediately preceding the time of retirement."

So I'm not going to read the entire thing, but it's to point out that the date here referred to to determine the average salary and the 52 pay periods preceding, as defined in the ordinance, is the time of retirement.

So what we noted was that in each case, the 52 pay periods preceding the DROP commencement date, so the date that the person entered the DROP, was used to calculate the average salary.

Further, in calculating the years of credited service to determine what percentage of the average salary they were going to receive in the DROP, was also based on the years of service at the DROP commencement date. So the date the person entered the DROP.

So in the ordinance, the term of time of retirement appears to be interpreted for this purpose as the DROP commencement date.

Any questions about that so far?

Okay. So 3d is where we were recalculating the benefit payment that was going into the DROP as well as the cost-of-living adjustment that were being applied. And what's important here is the DROP term, to make sure that the term was -- they were in the DROP for the appropriate period of time in accordance with the ordinance.

So when it came to agreeing the amount that was being deposited to the DROP, every time that always matched the form, the election form, and the cost-of-living adjustment was always applied properly to our testing.

Regarding the DROP term, I'm including an excerpt from the ordinance in our report. If you skip down to the table, this is the table for the ordinance that specifies the maximum time of participation in the DROP.

And you can see in the column headed in bold on the top of the table that it says, "Years of

Credited Service at Time of Election."

If you turn over to the next page, we saw that the years of credited service used in calculating the average salary and the percentage applied was based on the DROP commencement date. So we initially applied this to determine the DROP period as well.

When we did this, we found some exceptions. So we inquired of the team, and they informed us that the time of election that is in this table that we just talked about -- so Years of Credited Service at Time of Election from the table -- was considered the date that the application to enter the DROP was signed by the participant.

So the time of election means the time that they're signing their application to enter the DROP. So this is a different date than the DROP commencement date, which is when they entered the DROP.

So upon learning this, we requested the application itself for each one, and we noted the date that it was signed. When you apply that date to the calculation of years of service, it results in different credited years of service being applied in this calculation for determination of the DROP period versus the years of service used in calculating the average salary and the percentage of the average salary that they're receiving.

It appears that in the calculation that some of the years of credited service were rounded down and some were rounded up to the nearest year. And I can kind of explain this better if we look at the table here.

So the table that we've put in the report -- this is not every selection; those are included in the exhibits -- but this is just a sample of the different scenarios that we saw.

So let's focus in on last name Lundy. If we just look at the forms in the file, it states that his years of service were 30 years. If you look at his -- if you calculate his years of credited service on the date that he signed his application to enter the DROP, the time of election, he had achieved 29.97 years of service.

MR. CARRODEGUAS: That second column was computed by our firm.

MS. BONIFAY: Right.

MR. CARRODEGUAS: That was our firm's computation.

MS. BONIFAY: So after they -- they said the time of election is the date they sign the form, we obtained this form and they calculated that.

The years of credited service at the DROP commencement date is 30.08 years. So in this case, the percentage of the average salary that he was awarded was 80 percent, which is based on the 29.97 years, because if someone hits 30 -- I'm sorry.

The percentage of average salary was based on the 30 years, because at 30 years, a participant receives 80 percent.

But when computing the DROP period, it appears that the 29.97 was used because, until the time between 20 and 30 years, they receive a term of 60 months in the DROP.

So it appears that a different years of credited service was used based on this approach, as interpreted.

Does anybody have any questions about that so far?

DR. HERBERT: That means he was paid too much or too little?

MS. BONIFAY: Well, if you say that he had 30.08 years of service, then it means that he was in the DROP for too long based on that, which means he was accruing benefits and interest for too long, if you interpret it that way.

MR. CARRODEGUAS: You can go back to the table. And so based on our calculation, we came up with 29.97, which is short of the 30 years which would have put him in a different bucket.

MS. BONIFAY: Right.

CHAIRMAN SCHMITT: So, now, if we're looking at the 29.97, then that would have been a 78 percent average salary --

MS. BONIFAY: Correct.

CHAIRMAN SCHMITT: -- instead of 80 percent average salary?

MS. BONIFAY: Correct.

CHAIRMAN SCHMITT: So the question comes down to is, which -- which time, time of election or time of DROP commencement should be used for the percentage of salary?

DR. HERBERT: And does the ordinance provide very clear directions in that regard?

MR. CARRODEGUAS: Our report can't substitute any legal opinion. When we read the report from Mr. Cipen (phonetic), which we know him very well, and in his letter it basically says that although in the ordinance there appears to be some ambiguity, if we're applying this mechanical computation consistently, it is what it is. It could be consistent. We have found some inconsistencies.

So based on that, it's inconsistent. I mean, outside of that, what is right or wrong, I don't think, is really the answer. I think Mr. Cipen was referring to what should be consistent. And he was looking for -- we're looking for that consistency here when we're doing the computation, but we didn't find it.

MS. BONIFAY: To point out another example, if you go in the table to last name Copeland, in this person's case, there was 20 years of service on their paperwork. Their years of credited service at the time of election was 19.94, and their years of credited service at the DROP commencement date was 20.07.

So the percentage of average salary applied was 60 percent, which is based on 20 years of service, and they were given a DROP period of 60 months, which was appropriate for 20 years of service.

But if you notice, the years of credited service at the time of election was actually less than 20. So if you use the date that they signed the form in this case, they're technically not eligible yet.

And it's fine to, you know, allow a participant to turn in their paperwork before as long as they're not actually participating in the plan until they have hit the years of service, which is what is being done. No one is entering earlier.

But it's just to point out that if you do apply the years of credited service at the time that they applied, technically they're slightly short when -- if they apply right before they hit the 20 years.

MR. KLAUSNER: Mr. Chairman, that's a drafting issue in the ordinance which you have no control over and nobody else has any control over except City Council.

Because you have two operative dates, the length of your time in the DROP is determined on the date that you fill out the application and turn it in.

The commencement of the DROP is the first of four quarterly dates after you turn in your application and after you meet the minimum eligibility. So whoever drafted that provision over there, you know, created this anomaly that you're struggling with here.

It is actually unusual to have a DROP commencement date be other than a date consistent with your application, or usually the first date of the month -- you know, the first pay period, because Jacksonville pays 26 times a year. Most pension funds pay 12.

In most of the 400 or so DROP plans that are out there in the country, as long as you're eligible to retire, you get into the DROP on the first payday after you turn in your paperwork. Here it's January, April, July and October.

So, you know, if ever we get to what I would call a clean-up ordinance, which happens periodically, like next time we have to make a tax change or something like that, this would be something that would be ripe for addressing with the General Counsel's Office, which is to eliminate, in essence, two different periods of measurement.

CHAIRMAN SCHMITT: From your perspective when making these calculations, based on what's in the ordinance, the ordinance says you will be in the DROP for a maximum of five years.

However, to apply this consistently, it would be impossible to actually be in there for five years if we chose to use the DROP commencement date.

MR. CARRODEGUAS: Right. Because the DROP commencement date is defined as the day you sign the form, which is always before actually --

MR. KLAUSNER: No. It's the DROP eligibility date, Vincent.

MR. CARRODEGUAS: I'm sorry?

MR. KLAUSNER: I think you meant to say the DROP -- the DROP election date is the day you sign the form.

MR. CARRODEGUAS: Correct.

MR. KLAUSNER: The commencement day is that quarterly date --

MR. CARRODEGUAS: Is the quarterly date, correct.

MR. KLAUSNER: -- so there's always a gap there.

MR. CARRODEGUAS: Yes.

MS. BONIFAY: If you hit 30 -- if you're a 30-year retiree, if you apply the same day, you're not going to get 80 percent of your salary in the maximum period.

CHAIRMAN SCHMITT: Right. But that's what the ordinance says you're entitled to.

MS. BONIFAY: Well, it says that if you're -- well, it says that if you're at 30 -- right, between 30 and 31 years, you're supposed to get the maximum. I'm sorry. I'm stating it wrong.

Between 30 and 31 years. Hold on. 30, but less than 31 years, is 36 months. And then if you -- but if you achieve 30 years, then you get your full 80 percent. Sorry. I said that backwards.

CHAIRMAN SCHMITT: Right. So you're supposed to be able to be in the DROP for five years at 80 percent, but because of that gap between the time of election and the DROP commencement, that creates that inconsistency.

MR. CARRODEGUAS: That is correct.

CHAIRMAN SCHMITT: That's built in the ordinance.

MR. CARRODEGUAS: Yes. Because mechanically you can't enter the DROP because mechanically it works on a quarterly basis.

CHAIRMAN SCHMITT: Right.

MR. CARRODEGUAS: But you're required to make the election beforehand, and so that causes that gap.

CHAIRMAN SCHMITT: Right.

MS. BONIFAY: Any further questions about that procedure? Comments?

MR. GLOVER: What's the logic for that? I mean, if the industry is doing something different, why do they do it that way?

MR. KEANE: It involves the people. We have so many people.

MR. KLAUSNER: No. The logic for why you applied before? Why do we have two different dates?

MR. GLOVER: Yeah, right.

MR. KLAUSNER: I have no clue. It makes no sense at all. It should just say, you're eligible to enter the DROP on X date. If you enter on X date, you get it for so many years. If you enter on Y date, you get less years.

Now, there are DROP plans where if you enter after, say, 30 years, for every month or pay period, you lose, like, a month of DROP. That's actually a more common model.

This is the only one I know of -- and we deal with probably 70 or 80 DROP plans among our various clients, and this is the only one that has two different dates.

And I think, quite frankly, the problem that happens generally with drafting from governments, and it's no different at state government level or local government level, over a period of time you have different authors who engage in this. They all have a different mind set as to what a word means to them.

And I know when I worked on rewriting the general -- the general retirement system about eight years ago, we spent most of the drafting time -- there was actually a drafting team that involved people from the General Counsel's Office, plus accounting folks like GSK, and finance people and, you know, people from the mayor's office, and we spent 90 percent of the time on the definition section because that's what really guides it.

This plan doesn't have a very detailed definition section, which is why at some future date I think what I would like what I would call a technical amendment ordinance, would be appropriate and that would be the time to eliminate this confusing anomaly.

I mean, I -- you know, listening to what your outside engagement team has said, you can't -- the two sections are operatively inconsistent, because you've either got to apply before or you will lose time.

And for people who are coming in on the bottom end -- you know, we don't have anybody leaving at 30 years anymore. Our DROP period, our actually age, meaning service date at retirement, has dropped from almost 29 years to about 20 years and 2 months as a result of all the issues that are, of course, now resolved between the fund and the city, but that really caused people to run out the door.

This issue is unlikely to be repeated because of the current age of our workforce, but notwithstanding that, I would still recommend that we do something. I don't care what's decided, whether it's before or after or shorter or longer. That's a policy decision that somebody else will be making.

But to have two different dates that work against each other creates an issue, and I think that's what the outside counsel who looked at it thought.

And I know I've spoken to the treasurer about it because he works closely with the general plan, and I think everybody -- and I've spoken to the people that we work with at -- our partners at the General Counsel's office, and everybody agrees -- you know, this particular ordinance happens to be an orphan. No one wants to claim it as having written it, but it clearly requires -- and I understand why there was confusion about it.

Because if you have an election date which everybody seems to say is the operative date, it's the date you turn in your application, but because you can't start, you have a gap in actual service and earnings, generally not a lot, but you have an actual gap between the operative date and the date that pay starts. And I think that's probably why the newspaper said, Well, why is it this way and not that way?

And I think it was an appropriate fiduciary exercise by the trustees to get somebody outside the group here to look at it both from an accounting standpoint and to look at it from a legal standpoint without any of us involved. And I know that was the immediate past chairman's goal, was to get that done. So what this really requires is an ordinance change.

MR. TUTEN: I think a lot of this really -- you know, and I think John was going to make a point, but I'll make it. You know, we're dealing with a lot of people. We've got seven people down here, eight?

MR. KEANE: Seven.

MR. TUTEN: So, really, that is not a matter -- if you look at the numbers, the people below -- really, what we're talking about is people that were above, right on that 30-year line.

In other words, are they really eligible for five years or four years? Everybody else is well within the limits as far as getting the full DROP. So, really, it doesn't matter. It's more of a paperwork -- like Bob said.

My question is, how much people, since we've had the DROP, were in question for this? I mean --

MR. KLAUSNER: You mean how many were right on the line?

MR. TUTEN: Right.

MR. KLAUSNER: I don't know the answer to that. John or Vincent may --

MR. TUTEN: I mean, it's fairly obvious what's happening. There's a lag as far as when people sign up and actually being able to start. That's not the pension board's, you know, fault. I mean, that's just the way that laws were written.

MR. KLAUSNER: Correct.

MR. TUTEN: We have a lot of people --

MR. KLAUSNER: You can't start the pay -- you can't start the DROP commencement until after the next quarterly date after the application.

MR. TUTEN: And that's always been the -- I mean, that was obvious from when this whole thing started. That's always been the problem.

It's obvious to see, from the time they sign up to the time they're allowed to actually start the DROP, there's going to be a lag and there's going to be time discrepancies between those two dates.

And it's not about we're giving people extra benefits because they now have 30.5 years and they should not have been entitled to five years of the DROP. It's clerical, is what I'm trying to tell you.

CHAIRMAN SCHMITT: I'd like to get the rest of their presentation, then we can have more discussion about that.

MR. KLAUSNER: I'm sorry.

CHAIRMAN SCHMITT: I agree with what you're saying. That boils down to the issue.

MS. BONIFAY: And just to follow up on what you were just asking about how many people it affected, we just did a random selection from several years. So we didn't do any -- you know, we don't have the total population to know how many people were 30 years versus 29.

Okay. The next procedure is 3e, and there we were taking the final accumulated DROP balance. So at the end of their DROP period, we're looking at the -- so when they transfer from being in the DROP to the statement where they're going to either receive the lump sum or deplete the balance, to make sure that the correct balance was applied to their either lump sum on payout or however they elected to receive their accumulated DROP benefits.

So in this case we found three exceptions from our selections of 28, and they all resulted from the same issue.

When someone -- when their DROP date terminates, those benefits -- the totaled accumulated DROP balance in supposed to freeze until they start receiving their payout or their lump sum.

There were three of our selections that there was a period of time that lapsed between the DROP termination date and the date that they actually turned in their form to make their election of how they wanted to receive their accumulated DROP benefits.

So most participants that we saw turned in the form. They knew the end of their DROP termination was coming up. They made their elections, and on the very next pay period, they started receiving the payout of the DROP. On three cases they lagged a little bit.

So what's happened during this time for these three cases was that they continued to receive interest credited during that time. They effectively got that 8.4 percent interest during the period of time from the DROP termination date to when they received the first -- the payout when it should have frozen.

So John and his team already calculated -- they identified two of them when they prepared the paperwork to send to us, and they prepared corrections. And they've already sent letters to those three individuals, notifying them that the additional interest that was credited and has accrued since then is going to be deducted from their total balance in September. So those will be corrected.

They are also putting together a plan to go back and review every single participant to make sure that they've caught every instance of this. And it's definitely very important that that's followed through on because -- because it compounds interest, it makes a very large difference.

Out of the three corrections that were to date, one was around $5,000, one was $8,000, and one was $1300. If they had gone longer, they would have accumulated a lot more, because in some cases they have selected, you know, a 40-year payout. So there's a lot of interest compounded on that additional interest.

So that's definitely very important to go back and correct, which they're already working on.

Any questions about that procedure?

CHAIRMAN SCHMITT: Now, if they elected to pay it out for 40 years, kept the entire balance in there, there wouldn't be a difference, correct?

MS. BONIFAY: Right -- no, it would be because they're getting -- so there was a period of time when they received interest when they shouldn't. So over that 40 years, that extra interest, it got added to their start balance for their DROP.

So let's say --

CHAIRMAN SCHMITT: Got you.

MS. BONIFAY: Okay. So then that additional is added to the principal, so it's accumulating interest over time.

So I calculated the total difference, what it would have been for, like, a 40-year person if it hadn't been caught, and it was, like, $82,000 over the four years.

MR. TUTEN: What was the average time length that you noticed? In other words, was it like two weeks, a month? How long was it between the -- you know, they made the election -- in other words, they should have stopped paying interest until they actually started their payout?

MS. BONIFAY: I know for sure that one was a month and a half.

MR. TUTEN: Okay.

MS. BONIFAY: I don't have the other two with me. I just happened to bring one example with me, and it was a month and a half. Because what happened is, he may have turned in the form by 30 days, but then by the time the next pay period came along, by that time he got a month and a half worth of interest.

MR. TUTEN: I got you.

MS. BONIFAY: So, you know, the actual amount at that point wasn't an enormous number, but then it's going to compound the interest on it.

MR. TUTEN: But what I'm curious is to -- okay, let's just say he filled out his forms, and then how long does it normally take between you fill out your form and then you actually start getting the DROP dispersion, just the next pay day?

MR. KEANE: Normally. It's the first payday after the DROP commences.

MR. TUTEN: Right.

MR. KEANE: So you're going to exit. You're leaving June 30th. Your first DROP check is going to be July 13th or so.

In these two cases that she's referring to, they did not make an election in time to get a DROP payment on their first check, nor their second check. They got their first DROP payment on their third check.

MR. TUTEN: Okay.

MR. KEANE: And in that month's time, they received interest on the undistributed balance.

MR. TUTEN: Okay.

MR. KEANE: Those are the people we identified. We said, You've got extra interest here at the start of this much, and you've been paid interest on that interest this long at this rate, and it makes this much money. And on September 11th, we're going to take the money from you and adjust your end date.

The other person that she's talking about was a widow. And in widow's situation, survivor's situation, they have 90 days to make the election because of the traumatic circumstances they've undergone and funerals and what have you, but the DROP balance should have frozen.

We had an employee here that improperly let the accumulator go on, and because some money wasn't being paid out, it started generating some more interest.

We have reversed that. I've spoken with that lady and we're making her correction on September 25th.

MR. TUTEN: What's the total number of people we're talking about?

MR. KEANE: Three.

MS. BONIFAY: Well, that's from our selections. So out of our 28, there were three with that error. So now they have to go back and look at everybody to see.

MR. TUTEN: Well, the reason I asked is because I was just wondering -- it just didn't make -- I was trying to figure out the reason why -- you're going to be earning interest the minute you're on the DROP and you sign up before you get that first check. So I didn't understand the parameters as to why exactly this was a problem.

MR. KEANE: Since then, since '11, our current financial service manager, he calls them and calls them, tells them, You've got to come in and make an election. And we tell them, If you don't make an election, we're going to write you a check for the balance. That gets them on in here.

MS. BONIFAY: Okay. Go ahead.

MR. TUTEN: Go ahead. I'll ask later.

MS. BONIFAY: Procedure 3f is where we want to -- we take the form where the participants elected the amount that they were going to receive over the payout of their accumulated DROP benefit. We agreed it to an example payment coming out to make sure that it matched, and we didn't find any exceptions in that. So what they selected is what they got.

3g is the same thing but for lump sums. So if they elected a lump sum or partial lump sum, we looked at that to make sure that what they elected was what they received. No exceptions found there.

And then 3h is where we actually took the form where they made the election of the payment they were going to receive, and we actually got the amortization schedule that the administrators prepared in offering them their different options, and we made sure that that agreed.

And for one of them, and it was the same widow that he was -- John was just talking about, the benefit payment period that was shown on the form did not match what was actually being paid out.

It's hard to find exact documentation to support this because it was a long time ago, but it appears -- and this is the administrator's response and interpretation of it -- is that at some point someone did recognize that the widow received interest when they shouldn't have, and changed the payment period in order to correct the error. But they didn't go all the way back to the actual DROP termination date. For whatever reason they just didn't -- either they missed, like, two weeks in it.

So, again, there's nothing to actually state, you know, that this is what happened. We changed her payout period, but it appeared that that's what happened. But either way in this case a complete correction has now been calculated and they're going to adjust in September.

In every other case, the payment period that they selected matched.

That's all of our procedures. So are there any questions about anything in our report?

There's also exhibits here that include the engagement letter that was signed by Mr. Keane and the Board, and also the exhibits include the detail of all the selections that we tested, and the final report will have a page for every single participant that we tested, all the data, all the steps that we did so that anyone can refer to that at any time.

I also included as an exhibit just a summary of the years of credited service calculation. So that table that was in the report, that was just a few examples so that that can be analyzed.

DR. HERBERT: Could you give us a big picture summary, then, of what you have observed and found that overall the payments have been done appropriately or --

MR. CARRODEGUAS: It's tough to do. You know, we can't really give you an overall picture. We can only give you exactly -- this is a very, very highly-limited scope.

So what we found is, yes, in certain cases there were inconsistencies. And, yes, in certain cases, by design, there were inconsistencies between the mechanics of entering the DROP and what's in the ordinance.

So you have issues here very specific to the procedures that we've done, but to give you an overall impression, I couldn't possibly do that because of the limitation of the procedures we did. You know, we only did a page of procedures.

DR. HERBERT: And is it your sense that what management has indicated it is doing in terms of going back and recouping some of that interest and all that has been done appropriately?

MS. BONIFAY: For the three that we found in our -- from your selections, they gave us copies of the letters that they sent to the participant stating, you know, how much was going to be deducted from their principal balance and the date that it was going to be done.

As far as their plans to go back and recalculate for every participant, they're in the works with that, so we haven't observed any of that.

MR. CARRODEGUAS: So all the actions of management are all appropriate. Based on everything that we found, it's all appropriate. It's what we would do.

DR. HERBERT: That's what I was trying to get at.

MR. GLOVER: Your finding was the result of a random selection, right?

MS. BONIFAY: Except for the three that were specifically put in the procedures for us to select. The others were random from these years, and we used a random number generator as well.

MR. BUSSELLS: Mr. Chairman, when appropriate, I have a questions. I'm sorry I cannot be there and can't see who's talking, but when appropriate, if you would call on me, I've just got a question or two myself.

CHAIRMAN SCHMITT: Go ahead.

MR. BUSSELLS: This is for Bob.

Bob, I think -- I think everyone agrees, both you and the outside counsel that looked at the question, that there's appropriate latitude in interpreting the statutes.

And I think also everyone agrees that once an interpretation is made, it must be consistently applied for all members over time, until there's a conscious change, in which case it would be consistent when applied going forward to all members so that all of our members get treated the same way.

And it appears there's been, in this very limited sample -- but useful, very useful sample -- there is some consistently in application of the interpretation of the statute.

And if you agree with that, I would be interested in hearing your thoughts about what action should be considered now going forward.

MR. KLAUSNER: I would recommend based on the reports that we got -- it looks like the three were errors in calculation, meaning somebody didn't watch the calendar at the right time.

What I would recommend is that we -- we'll draft for the Board a DROP implementation policy based on the observations and set out a more specific set of steps as to how to calculate and apply the provisions of 121.209, taking into account that the ordinance itself has what I think are appropriately described as mechanical conflicts built into it, whether intentionally or otherwise; and that I'll bring that policy back to a future Board meeting for further discussion.

I would also recommend that we send it to GSK to review to see if the policy that we've drafted is consistent with the observations that they've made.

MR. BUSSELLS: And then you'll also include recommended actions, if any, to address the inconsistent -- apparently inconsistent application.

MR. KLAUSNER: Any inconsistent application has to be made consistent. Any error has to be corrected.

MR. BUSSELLS: Okay. Agreed.

MR. KLAUSNER: You have discretion in allowing people time for correction. When you're still holding on to the DROP money, correction is easy because it's just a debit on an account.

If someone's actually been paid, and I don't -- none of the three, I think, that were observed had actually received the money. But if we find someone that was overpaid, we would have to make some arrangement either through, you know, periodic debits from future annuity payments or whatever to do that.

So I'll draft that policy and we'll bring it back for the September meeting.

MR. BUSSELLS: And then you're using, which is fine, the commencement of DROP payment matter that was identified with three.

I was also addressing the inconsistency in the selection of dates to determine credited service and those things.

MR. KLAUSNER: I understand that --

MR. BUSSELLS: Okay.

MR. KLAUSNER: -- and that's why with the Board's permission, since GSK is down at my end of the world, I'll spend a little time with Vincent and Amanda with the draft rule to make sure we're all speaking the same language, because lawyer language and CPA language isn't always the same language.

And the problem is we've got too many inconsistent terms. So I want to make sure we have a consistent set of terms that will result in a consistent set of practices.

MR. BUSSELLS: Okay. I just have one more point.

The incident rate identified for the DROP payout provision was over 10 percent of those selected. The accountants very properly have caveated the great caution we must all exercise beginning to even think about extrapolating conclusions for the entire population from this excellent but limited work done today.

Nonetheless, if you were to do it just to help think about what to do next and go from 10 percent of 3 years to 100 percent of all the years, if there were any relationship between the observed incident rate of somewhat higher than 10 percent in the total population, then we're talking about a couple of million bucks, you know, that would be recoverable.

And so I would suggest, indeed as others have said, that there be a systematic review on that matter as well in conjunction with the independent accountants and our staff or, you know, whatever is determined to be the most efficient way to do it, to gain enough data to begin to determine what the likely incident rate is in the population, and then, you know, act accordingly from there.

Because if the very limited sample with all the caveats is anywhere close to the population, you know, it's a couple of million bucks. So it's not an insignificant number that I think is worthy of our attention.

MR. GLOVER: And it is a high number on those random selections.

MR. KLAUSNER: I'm sorry?

MR. GLOVER: I said that is a high number on those random selections so -- but I go back to my original question.

Unless the people who were drafting the ordinance, looking at the universal class and saying, We're going to do something different here, and somewhere down the line we're going to create confusion, assuming that they didn't say that, I was asking, why did they -- why did they do it this way?

MR. KLAUSNER: I think it's a lack of familiarity with the administration of retirement systems.

You know, there's a lot of great lawyers who do drafting, and we work with a number of state legislatures' bill drafting departments on pension bills. And while they have great skill as legislative drafters about avoiding inconsistencies, they're unfamiliar with the mechanics of the operation of a defined benefit retirement system and the complexities that go, for example, into a DROP feature.

So I think that's probably the next step in the work, that after we've developed a procedure to avoid the observed situations where either the timing didn't get turned off or the inconsistencies -- potential inconsistencies in dates, that we then take that policy and hopefully get 121.209 rewritten, not to seek a benefit increase obviously, because that's not this Board's business, but it is your job under the charter to recommend operational changes to the system within the ordinance code to the City Council when we observe them.

And I think that's -- there's two steps left to go -- well, three. One: Your controller, since you now have a new CPA in-house, to oversee that benefit review, the remaining names.

Number 2 is bringing back a policy to the Board to effectuate a consistent application of the ordinance as currently written.

And then step Number 3: Take the effect of that policy over to City Hall and for me to work with the General Counsel's Office to seek a redraft of 121.209 for the express purpose of eliminating two different dates which work against each other.

That would be my recommendation.

MR. GLOVER: Well, it just seemed like the people who are being victimized by this, they were doing the right thing. They were looking at complying with the rules and the ordinance, and you go back and penalize them. It seems a little unjust, but maybe there can be some kind of adjustment made by this Board.

MR. KLAUSNER: The Restatement of Trust, which is the general body of trust law which the Florida courts have applied -- or have adopted, basically says the trustees of a trust have discretion in how to adjust overpayments.

You do have a duty to go back, under our own code, and look and see, is there an overpayment or an underpayment? We're supposed to pay people the right amount of money, not too much and not too little. We they paid too little, that's easy. We give them the money.

If we -- if they were paid too much, then we have a duty to identify the too much and work out an equitable system of repayment. And we have -- we've dealt with overpayments in other places before.

The IRS actually has specific rules on how to recover overpayments, which allows the trustees discretion to ameliorate the adverse impact on the individual who may have been an innocent player in this.

And I think if there is an overarching theme to the report that you received today, is that they've observed no systemic effort by management to misapply the rules, and that if there were misapplications, they were generally, what I would call, calendaring issue; that is, a staff member misapplied the correct date.

So I think this is a very worthwhile exercise for the Board and well worth the relatively modest expense that was incurred in identifying the issue, because DROP is a very popular feature that is used almost universally by our members. So getting it right is important.

DR. HERBERT: Could I ask one other question?

As you know, the Chairman had asked that you specifically conduct testing for three DROP participants. I noticed that two of the three are listed in your chart that you referred us to and not the third.

One: Is there a reason that you did not include the third person? And then there's a second question. This is tied back to the reason that those three were identified.

Are there any exceptions with regard to those three where monies have been paid or interest has been paid that shouldn't have been?

MS. BONIFAY: So the reason on the table that you're looking at in the report they're not all three there is because, in the report itself, I was just trying to show examples of the different scenarios over the years that we saw, but it happened to be that two of them had the same scenario.

So if you go to Exhibit 3, which is the very last page, that's a listing of all of our selections, and all three are right at the top.

So I'll tell you which two have the same scenario. So Mr. Deal and Mr. Lundy both had just shy of 30 years of service at the time of election and just over 30 years at the DROP commencement date. So they had the exact same situation. That's why they're not in the summary table of the report.

So specifically the two that I just mentioned, Mr. Deal and Mr. Lundy, they are the examples of what we were just talking about that you -- if you apply the same year of service to both calculations, one cannot receive the maximum period in the DROP and the 80 percent of retirement.

So if you were to apply -- if you were to look at the years of service at the date of election and say, Okay, it's just shy of 30 years, well, then, they can stay in the DROP for 60 months, but they only get 78 percent of their salary.

If you apply the years of service at the DROP date, then they would have 30 years of service. So then they can't stay in the DROP for the maximum period, but they get their 80 percent. So they're the two prime examples of that problem with the dates.

CHAIRMAN SCHMITT: Any other questions?

MR. KLAUSNER: What does it take for the Board to receive the final copy of the report, because this is presented in draft?

MR. CARRODEGUAS: The process now would be is we would seek official approval upon full review of the report from management and we would issue the report. That's all that's left.

So I don't know if all the appropriate individuals have had time to review the details and go through it to make sure that they get back to us that they agree with the report.

MR. KLAUSNER: Since the report was just received, it might be appropriate to put this on for final approval on the September agenda. I think it's important for you-all to review it and make sure that all of your questions have been answered.

As you know, you can -- any one of you can speak to the investigatory team individually, but you can't do it together, nor can they tell you what anybody else said.

So individual communications between any of you is all fine. Or if you want to send a list of questions to John, he can forward them all on at one time.

But I think it's appropriate for you to take a little time just to digest the report. I'd rather you were sure.

MR. KEANE: Received as information?

MR. KLAUSNER: And I would suggest it's received as information today and scheduled for final approval at the September board meeting.

CHAIRMAN SCHMITT: And no other questions for the CPAs?

All right. We'll show the report as received as information and put it on next months' agenda.

MR. CARRODEGUAS: Thank you.

MS. BONIFAY: Thank you.

MR. KEANE: Taking up the consent agenda, Mr. Chairman and Trustees, items 1 through 8.

DR. HERBERT: I move approval of it.

MR. GLOVER: I second.

CHAIRMAN SCHMITT: All in favor?

(Responses of "aye.")

MR. KEANE: Next item, Mr. Chairman and Trustees, is the Personnel Committee.

Dr. Herbert, do you want to report on item B first, the Annual Performance Evaluation of the Executive Director.

DR. HERBERT: First, just by way of background, I think all of us during the course of this past year have complimented John on his diligent work, especially in relationship to the final agreement that we were able to reach with City Council.

For those who are not aware, what happens in terms of the annual evaluation is that each trustee evaluates the executive director. We have broken the evaluation down into two sections.

Section 1, which focuses on several areas, there are nine specific components of that: Analytical thinking, business perspective, decision-making, impact and influence, interactive communication, problem solving, strategic thinking, work ethics and values.

What we agreed on, I guess, two years ago is that that particular section would constitute 35 percent of the evaluation.

And then Section 2, which focuses more on the technical aspects of the job in terms of our investments and the like, and let me just mention those:

Actuarial evaluation, affidavit program, change management, employee relations, fiduciary management, investment management, legal; and then we have another category, legal securities litigation, legislation, recruitment and development and required reporting.

So what we've done -- I just want to thank Steve Lundy for his help on this -- we've put together a spreadsheet that enabled me to go through and appropriately summarize everything.

But let me just tell you now what the Board collectively has observed. And I would just mention that we have -- really, based upon the feedback, we have three categories that are relevant:

Exceptional, which is the highest. Very few people attain exceptional in any organization. Then Exceeds Expectations, and finally, Meets Expectations.

And what I can tell you, I'll be talking with John about this in more detail following our meeting today.

But let me first note -- first I'll just give you the summary. All of us totally have agreed that he had exceeded our expectations, and that is true with regard to both Section 1 and Section 2.

And I think that's a real compliment to you, John, that your Board has that level of confidence in you.

I might also note that out of a total of 55 -- out of a total of 100 potential evaluation entries, that is, taking all of our feedback together in the context of the nine in Section 1 and the ten in -- the 11 in Section 2, that he has received the exceptional ratings in 59 out of 100 possible cases.

I think that says something about how your Board feels about you, John. And, again, the overall rating is that he has exceeded expectations.

So my intent would be to go through this in detail with the executive director so if he has even more specific feedback.

But that is the summary of the evaluation. What I'll do is I'll give that to Debbie.

CHAIRMAN SCHMITT: I agree. It sounds like overall, my thoughts included, you've done an excellent job and we appreciate what you've done.

MR. KEANE: Thank you very much, Mr. Chairman and Trustees. We will show that report received as information.

And I would like to let the Trustees now I'm going to retire.

CHAIRMAN SCHMITT: Do you have a date set?

MR. KEANE: September 18th.

CHAIRMAN SCHMITT: We all knew it was coming. Thank you for that information.

And, of course, there will be a few things to come before then that we can wrap up with you. Is that before our next Board meeting?

MR. KEANE: That is the next meeting.

CHAIRMAN SCHMITT: That is the next meeting. Okay.

MR. KLAUSNER: Does that mean you're coming for the meeting or not coming?

MR. KEANE: I'll be here.

DR. HERBERT: What I would like to ask authorization to do is to talk with John about that. I think that there are two or three things we've got to address.

One is we've got to immediately initiate a search, and what I would like to request the Board's authorization to talk with our staff person in Human Resources to initiate an expedited search, because we can't afford to have a long period of being rudderless or at least not having someone in that position.

So I would like to talk with her potentially even today to get a very clear sense as to what we need to do to conduct the next search, and the second thing is to talk with John to see if we can work out something for him to at least be a consultant to us for a while until we know exactly what is going to happen because, again, it would be just devastating if we -- if he was to leave on that date and we don't have a strategy in mind to assure that the enterprise is stable.

I don't know whether that needs a motion, but I would just like to ask the Board if you would authorize those actions.

One: To work with HR to develop an expedited search, and I'll report back to everyone over the course of the next few days as to what that looks like. We just need to see what the story is in terms of what the city policies are, but we would obviously operate within the context of the city personnel guidelines.

I don't know whether we can conduct a search within two weeks or three weeks or what the time frame might be, but whatever it is, and then coordinate with John to ensure that we're able to maintain strong leadership.

MR. KLAUSNER: I think a motion to that effect would be the better practice.

DR. HERBERT: Maybe I should make two motions. The first is I ask the Board to authorize the Personnel Committee to work with HR in developing an expedited search for the position of the executive director.

CHAIRMAN SCHMITT: There's a motion. Is there a second?

MR. GLOVER: Second.

CHAIRMAN SCHMITT: Discussion? All in favor?

(Responses of "aye.")

DR. HERBERT: And then the second thing is that the Board would authorize me to -- and President Glover to talk with John to assure a smooth transition and to assure that he will be available to help us in filling the void that is created as a result of his resignation.

MR. GLOVER: Second.

CHAIRMAN SCHMITT: Any discussion?

(No responses.)

CHAIRMAN SCHMITT: All in favor?

(Responses of "aye.")

CHAIRMAN SCHMITT: Carries unanimously.

DR. HERBERT: I would just say, John, that the evaluation that you have received, I think, is part of a great send-off because it says an awful lot about the kind of faith and confidence that the Board has in you and also the appreciation that we have for what you've done, not only this past year, but going back beyond.

And I know as the Chairman indicated, we'll have an opportunity to articulate that further over the course of the next few weeks.

MR. KEANE: Okay.

I show the next item, Mr. Chairman and Trustees, is the Financial Advisory Committee. You know, it was established by the Board earlier this spring. It was codified by the City Council and the pension reform.

We have a list of six potential applicants, five of whom are available to attend some training that Bob Klausner is going to put on starting it 1:00 this afternoon.

One recommended member withdrew, one is unable to attend, and one has not sent in his application. But we do have five people.

One of them works for a financial services company. One of them works for an investment company. One is a senior vice president of Jacksonville Bank. One is a director of private markets for the duPont Trust, and one has his own financial group.

Those are the ones that are going to attend the training this afternoon.

DR. HERBERT: Is any action required on our part?

MR. KLAUSNER: No.

MR. KEANE: I would recommend that they formally appoint them to the Board's Financial Advisory Committee.

MR. KLAUSNER: Do you have five people?

MR. KEANE: Yes.

MR. KLAUSNER: Okay.

MR. GLOVER: John, I'm not totally familiar with all the people on here. I see you've addressed diversity as it relates to gender.

Any attention to race?

MR. KEANE: Yes, sir. One is an African-America female.

MR. GLOVER: Okay.

MR. TUTEN: So the bottom four, and then which ones of the top two we're going to come today or are interested?

MR. KEANE: Second one, Number 2, Number 4, 5, 6 and 7. And if you don't do anything, we'll have the training for them. After the training they may decide, Hey, I don't want it after all, and we'll have more room.

MS. MANNING: Well, there was one other that was not able to attend, because of a conflict in his scheduled, who is still interested, the very first one. But he was not able to attend and would like to meet with Klausner or get the information later.

MR. KLAUSNER: I've prepared educational materials for the potential candidates, and we'll be doing about an hour and a half, two-hour review of the Florida law and fiduciary responsibility, the general law.

This is an abbreviated version of the trustee training I just did for the California Public Employees Retirement System, for whom I perform a similar role that I do here.

And the idea is to discuss what their responsibilities are with regard to investments and what their responsibilities are not. And also to discuss the concepts of responsibility and liability under Florida's tort laws as well as the Florida law which adopts the Uniform Prudent Investor Act, and hopefully to encourage their questions about the role of financial advisors.

As you may -- as you may not know, following the bankruptcy in Detroit, the Michigan Legislature created a Financial Advisory Committee for each of the two pension boards there very similar to what we included in the most recent Jacksonville City Code Revision, and they perform the same responsibility. And I helped do their training as well because we serve as fiduciary counsel to the Detroit systems.

But I think it's a useful exercise, and as you said, you know, somebody might hear all this and decide that's not really what they want to do.

The idea isn't to scare anybody away, but it's to certainly impress upon the candidates that this is a particularly serious enterprise. It's a multi-billion dollar operation, and that their advice and expertise needs to be brought to bear in a particular way. And I'm looking forward to speaking with them this afternoon.

MR. TUTEN: Bob, let me ask you a question, buddy. And this is not looking at it from their perspective, but from ours.

I'm not going to get into the names and everything here, but how many degrees of separation are we going to have to get into with somebody? In other words, somebody is on the advisory committee. We're dealing with a money manager somewhere. They have fiduciary responsibility, so they're tied in basically with us.

MR. KLAUSNER: Yes.

MR. TUTEN: You know, when you get into subsidiaries and certain sort of -- I mean, is that going to -- and maybe Dan knows better, but are we going to ever run into the point where it's going to limit our opportunity as far as who we can invest with?

MR. KLAUSNER: No. This has no -- remember, the Financial Advisory Committee is not the final word on an investment. The Board of Trustees -- actually, you have fully discretionary managers. You're the final word with the advice of your consultant on who you hire to run your money.

MR. TUTEN: I agree with that, Bob. But, perception, perception. You know as well as I do, brother, that perception is, even though the trustees don't know Adam from Eve, you've got this advisory committee over here who has the words -- something in his name, and he may have -- I'm not saying it's going to happen.

I'm just saying, is it worth, depending on the person that's on the list, maybe getting someone, you know, that doesn't have -- I mean, I see several people here that I'm pretty sure will never have anything to do with anybody we invest with.

But there's one, two that, you know -- not concern me, but I'm just playing devil's advocate here.

MR. KLAUSNER: I mean, I know two of the people on this list, one personally, one by reputation, by business reputation --

MR. TUTEN: I'm not -- no, I'm not impugning their character. I'm just saying from a business perspective.

MR. KLAUSNER: I think what their purpose is, is to give you -- it's like getting five people who are willing to donate their time to do what they --

MR. TUTEN: I agree 100 percent.

MR. KLAUSNER: -- and to perhaps help translate -- and what the treasurer does, which the city pays him for, and that's to help bring some additional financial expertise, and particularly because we're facing a substantial change of management here at the system, that having these extra voices and educational backgrounds to assist you, view this as a tool.

You're free to reject their advice if you choose, but it never hurts to get another opinion. And I think what they're intended to be is another opinion.

And the way I view their work is if the five of them end up divided on an issue, that would raise in my mind, were I a Trustee, that I need to have additional information from either our consultant or the direct asset managers themselves about a particular product or strategy, because if people who do this every day are deeply divided on an issue, then I need to know more.

So I think it will be useful. It's worked really -- now, it's only been employed in Detroit since December of last year, and I've been to a number of the meetings. It's worked pretty well, and it's been of substantial assistance. It has not interfered with the Board's ability to ultimately be the fiduciary for the system.

I don't think that will happen here. I view it as a positive, that it will -- it's just, like I said, another tool to fight the fire with, the fire being the uncertainty of the market.

MR. TUTEN: Yeah, I agree. I just don't like even the possible appearance of outside influence, you know.

MR. KLAUSNER: Certainly anybody who does that can't do any business with you.

MR. KEANE: That's in the ordinance code.

MR. KLAUSNER: That's in the ordinance code. It would also -- I think Chapter 112, part 3, which is the state ethics code, of Florida Statutes would also prohibit them or, you know, a son, daughter, husband, wife, you know, from doing business with you. Now, if it's their 83rd cousin, it's obviously --

MR. TUTEN: Right.

MR. KLAUSNER: -- not within the degree of consanguinity covered by the statute. But, you know, I think you'll learn as you deal with whomever you decide to choose that they'll want to help you. And if they don't want to help you, then they're going to resign and you'll find somebody who is interested in it.

I view this as public -- I think they all view it as an opportunity for public service, just as you do as the elected members and our outside trustees do because nobody is getting paid for this.

So I think they'll come with the right attitude, and I'll discuss in detail with them today what their role is, just as I described it, which is to be an educator and an advisor, not a decider. You're the decider.

MR. GLOVER: I think if you get that covered, if you have any sense of suspicion or reality that there might be some connection in a recommendation, I think it would be advisable for the person to recuse themselves --

MR. KLAUSNER: I agree.

MR. GLOVER: -- because I can't see -- you might have some distance connection or the appearance of some distance connection, and as long as they disclose and recuse, I mean, I think we're covered.

MR. KLAUSNER: I agree.

CHAIRMAN SCHMITT: At this point, does someone want to make a motion to accept, then, on the Financial Investment Advisory Committee for these three, four, five, or all six individuals?

MR. GLOVER: I move it.

DR. HERBERT: Second.

If I could ask one question. Are you convinced that everyone that's on this list that we're now voting on is willing to accept the position, or do we need to --

MR. KLAUSNER: I haven't met them yet.

MR. KEANE: They told us they would. We sent them an application. They all returned the application, said they're willing to serve.

CHAIRMAN SCHMITT: So the motion is for Jeffery Bernardo, Silas Bill Gassett, Sabrina Jackson-Carter, Rob Kowkabany, Craig Lewis, Sr., and Eric Brian Smith, to become part of the Financial Investment Advisory Committee.

MR. KEANE: There's only room for five.

CHAIRMAN SCHMITT: Five. Okay.

MR. KEANE: The Number 1 man cannot come today. So we're going to send the materials to him, and if he's still interested, if somebody pulls out, slide him in.

But it would be numbers 2, 4, 5, 6, 7.

CHAIRMAN SCHMITT: Gassett, Jackson-Carter, Kowkabany, Lewis and Smith.

MR. KEANE: Correct.

DR. HERBERT: John, what you just said kind of concerns me. So it is possible that someone, after going through the briefing today, might back out?

MR. KEANE: Correct.

DR. HERBERT: Would it make sense for us to vote on this finally at the next Board meeting as opposed to today?

MR. KEANE: Yes. That's a good idea.

MR. KLAUSNER: No problem.

DR. HERBERT: Just so we could be sure and that you could get the information to them.

I'll withdraw my second.

MR. KEANE: We'll show that received as information. We'll give you a report on the class today.

MR. KLAUSNER: I'll set aside some time to speak with the fellow who can't come today to give him the same background and make sure he gets the outline.

MR. KEANE: The next item, Mr. Chairman and

Trustees, from the General Counsel, Section 415(m) of the Internal Revenue Code, Excess Plan Distribution.

MR. KLAUSNER: The Internal Revenue Code and actually the city code already provides for an access benefits plan; that is, if a factor of the plan exceeds the maximum amount either in terms of salary considered or benefit account exceeds the provisions of the code, it gets made up directly by the employer, but the employer gets an actuarial credit for the savings at the other end.

The city has a few of its more senior executives in the general system who do that. It's required to have it as part of our tax qualification process. So I would urge its adoption. And literally it is, There shall be a 415 Excess Benefit Plan.

I don't think that anyone on the senior staff plan is going to exceed the 415 limits, but, you know, the IRS changes its view on things daily. Sometimes they change it while you're with them. So it has no cost impact that I'm aware of.

CHAIRMAN SCHMITT: And this would just

become part of our --

MR. KLAUSNER: It's just part of the staff plan, which is already closed and it only applied to the three people who are in it.

CHAIRMAN SCHMITT: Motion?

MR. BUSSELLS: Mr. Chairman, could I ask a question at the appropriate time?

CHAIRMAN SCHMITT: Yes, please. Go ahead.

MR. BUSSELLS: Bob, why does the Board have to act on this?

MR. KLAUSNER: Because it's uncertain at the present time, because I didn't know when John was going to retire or what his final calculation is going to be.

Based on my observation, his maximum amount will not exceed the 415. I don't know about the application of the salary under Code Section 401(a)(17). So it would ensure the full payment of the benefit in one fashion or another.

MR. BUSSELLS: Why wasn't this done when the senior plan was -- over the years it's been in existence?

MR. KLAUSNER: Because I don't think there was ever a concern that that would be an issue. And now that we're at the time that we have someone about to retire, it may or may not apply.

I've gotten conflicting opinions from Jarmon and our outside tax counsel who have looked at it as to whether it will apply or not.

So to address --

MR. BUSSELLS: When John's current contract was executed four years ago, five years ago, whenever that was, at that time it clearly exceeded the IRS limits, did it not?

MR. KLAUSNER: The salary was ahead of the 41(a)(17), but I didn't know if the amount that would be counted towards retirement would. That's, you know, not my normal area of attention.

And it wasn't until recently when there was a question as to what the number is going to be -- in fact, there's been some inquiry from the city as well about it. So that's what raised the issue. You can always do it retroactively. It makes sense to do it now.

MR. BUSSELLS: Will he have the calculations and final IRS work at the September Board meeting?

MR. KLAUSNER: I would expect he would. If he's going to retire, he'd have to.

MR. BUSSELLS: Yes. So could this be considered in September when we know for sure whether it's thought to be needed or not?

MR. KLAUSNER: That's entirely up to the Board.

CHAIRMAN SCHMITT: To summarize, there's no cost impact if we enact it, correct?

MR. KLAUSNER: No, because what happens is if there's an excess, it's paid directly by the system, but the plan is fully funded to pay the benefit without regard to 415 limits --

CHAIRMAN SCHMITT: Right.

MR. KLAUSNER: -- so there would be -- once the plan is terminated, the excess would come back to the system to, in essence, pay it back.

CHAIRMAN SCHMITT: What if we don't have it in place?

MR. KLAUSNER: It may result in getting less than the full benefit. And if that's the case, we still have an obligation to pay the full benefit.

There's only one reported case on it. It's out of Illinois, and it involved a hospital director. And the Illinois Supreme Court said, Look, you've got to pay the full amount whether you -- so create the excess plan in order to meet your obligation.

CHAIRMAN SCHMITT: So the plan covers if we're over the cap, the IRS cap?

MR. KLAUSNER: Yes, sir.

CHAIRMAN SCHMITT: Well, we have to pay it whether we have this or not?

MR. KLAUSNER: But you couldn't pay it out of the plan. You'd have to pay it as a budgetary obligation.

CHAIRMAN SCHMITT: Got you.

MR. BUSSELLS: Whoa, whoa, I -- pardon for interrupting.

Could we have the actuary give us a report for the record? Look, this is -- this is going to be examined because of all the factors we're all very aware of. We need to be extremely precise and circumspect in leaving a clear trail, if everyone agrees with that.

But could we have Jarmon give us a written report no later than the September meeting that there will be no cost to the fund, directly or indirectly, were this to be enacted?

Because I believe I've heard different things on that point as the months have gone by and we've had numerous conversations on the subject for the last year or so.

MR. KLAUSNER: Look, I'm not the -- you know, I'm not an actuary, so I wouldn't know the numbers --

MR. BUSSELLS: Well, I'm not either. That's why I'm suggesting for all the reasons I said, we should have that in the record from our actuary.

MR. KLAUSNER: Right. And that's --

CHAIRMAN SCHMITT: That there would be no cost to the fund, directly or indirectly, were this to be done.

MR. KLAUSNER: That's why I was agreeing with you.

MR. BUSSELLS: Pardon me?

MR. KEANE: And the way we do this is we send the pay records up to Jarmon. He does the actual calculations, which we normally do here for our members. That's all forwarded to Jarmon. He looks at the pay records. He makes the calculations, send a letter back to us.

CHAIRMAN SCHMITT: Right. And I agree with all of what you're saying. The more documentation we have and step-by-step process we have in place, the better we are to answer any questions in the future.

I'm just trying to get a good overview of what this all means, and I'm just trying to get on a summary level, whatever the amount is, the pension fund, whether it comes out of the investment funds or out of the budget item, it's going to have to pay whatever that amount is.

My question was more towards, if we don't have this in place, what the result would be with -- in relation to the IRS.

MR. KLAUSNER: If the IRS were to examine the plan and you were overpaying, it would require you to make a correction, either by adopting a 415 plan or lowering the benefit.

So, you know, I think that's a good idea to get the actuary to do the numbers. Just to --

MR. BUSSELLS: And on the legal point, Bob, if you go could give the Board your written opinion --

MR. KLAUSNER: Sure.

MR. BUSSELLS: -- that the fund must pay the total amount regardless of the status of the plan documentation and prior actions on it.

MR. KLAUSNER: You'll have that in time to go out with the agenda.

I was just going to briefly say to the Board, for those who are not familiar with it, there are maximum provisions within Section 415 of the Internal Revenue Service, Code 415(b), addresses defined benefit plans. And there are statutory numbers that are tied to inflation and they've increased over the years.

Based on the number of years John has, I do not believe the actual payment exceeds -- comes anywhere close to the limit. The question is whether the salary is over the limit based on the application. So that's for Jarmon to determine.

And the city has an excess benefit plan, because over the years some of the independent agency directors who were paid like an enterprise -- as you know, it's different than civil service pay, had numbers -- mostly because of age at time of retirement, that affected the amount of the money.

Under 415, if you leave before 62, there's a substantial actuarial reduction downward.

If you're -- 73? John is 73. The number actually goes up based on his age. So I don't know what the upside is of that. In other words, the amount you're allowed to get increases because of age above 62.

So, like I said, I think it's a good idea the get Jarmon to run the numbers. They are what they are. And I'll provide the legal opinion.

MR. TUTEN: Well, Bob, since we do have other independent agencies around the city and people have obviously, you know, made a lot of, money --

MR. KLAUSNER: Well, the general plan has a handful of people -- Joey probably knows what that is.

MR. GREIVE: I think we've got five.

MR. KLAUSNER: Five? I was going to say four.

MR. TUTEN: Yeah, and we can compare what they do and what the IRS did with them.

MR. KLAUSNER: I wrote that plan. So essentially what happens is this. If you're supposed to get $100 a month, and the maximum under the code you could get is 95, the city pays $5 a month.

What it does is it gives the pension plan the money to pay it. As the number goes up, the amount of the excess -- you know, as the inflation scale that the IRS applies goes up, the amount of the excess goes down. And so some people eventually will drop off of it.

And when that person passes, any actuarial savings to the actual pension plan itself, in essence, is returned to the plan sponsor in the form of a future contribution savings.

In the case of the senior staff plan, any money that's left in it -- because yours is fully-funded, you know, 100 percent funded, that when the last member passes, if there's any money left, it reverts to the pension system; just as in any closed pension plan, when there's money left over when the last person dies, that money reverts to the plan sponsor.

In the case of the staff plan with your three participants, you're the plan sponsor.

CHAIRMAN SCHMITT: So at this point we will show that as information received, collect the information from the actuary, and put it on the agenda for next month.

MR. KEANE: We're get that letter.

Next item, Mr. Chairman and Trustees, is we have a Monthly Budget Report from Devin.

MR. CARTER: Okay. Just from looking at the report here, everything is business as usual except we've got some unfavorable conditions that happened in July based on the market in China, what-not, you've got a variance of about 7.8 million.

So, probably, more than likely going to the following month, that number will be bigger, but hopefully after that we would hope that it diminishes.

And then everything else, again, is just standard as usual.

MR. KEANE: Show that received as information, Mr. Chairman?

CHAIRMAN SCHMITT: Show that received as information.

MR. KEANE: Okay. Would you like to take a break before we take up the investment part?

CHAIRMAN SCHMITT: Yes. Let's try to keep it short, five minutes, ten minutes max.

MR. KLAUSNER: Does Walt want to stay on or you'll call back?

MR. KEANE: Do you want us to call you back, Director?

MR. BUSSELLS: No, I'll just hang on. No problem.

CHAIRMAN SCHMITT: Let's try to reconvene at

10:45. It's 10:36 and we'll take a break.

(A break was taken; thereafter, the Board meeting continued as follows, with Devin Carter not in attendance, and Chris Keller making an appearance.)

CHAIRMAN SCHMITT: It's 1:37.

Mr. Bussells, are you still there?

MR. BUSSELLS: I am here. Thanks.

MR. KEANE: All right.

We're going to hear first, Mr. Chairman and Trustees, from our friends from Thompson, Siegel & Walmsley, want to give us a little report on part of our investments.

MS. MUSSER: Thank you. Thank you all for having us in. My name is Tracy Musser and I'm with Thompson, Siegel & Walmsley. We're one of your investment managers. We're based on Richmond, Virginia. And we manage your Core Plus Fixed Income Portfolio.

I'm going to do a 30-second version of what's going on at TS&W. We are a very stable, disciplined organization. We've had some growth this year, and it's been growth across various strategies that we manage for all of our clients. And it's been diversified growth across many different public plans, corporate, and other types of plans in the world.

We have 70 associates all under one roof except for two of us: Me, I live outside of Philadelphia, and there's another woman outside of Philadelphia. Most of our time is spent at 30,000 feet up in the air or in Board rooms such as this visiting with our clients.

And everybody else is in Richmond and sits in very close proximity, sharing investment ideas.

And with that, I'm going to introduce Bill Bellamy, who is your portfolio manager, and let him give you the idea of what's going on not just in the past year or so, but really this week, because it's been a little crazy ride.

MR. BELLAMY: In the last five days, yes.

But I want to certainly thank the Board and the Trustees for being such a long-time client. I think we've been -- our inception date, I think, was 1984, if I'm not mistaken.

And certainly congratulations and good luck to John in his future endeavors in his transaction out of the Jacksonville Police and Fire.

If you turn to page 2, just talks a little bit about our team. As Tracy said, we are growing in the firm. We've most recently added Greg Cole so a credit analyst, support team. So he is responsible at looking at individual credits.

So, again, our mandate is Core Plus. So we invest in traditional fixed income, treasuries, agencies, corporate bonds, mortgage-backed securities and high-yield bonds.

So he is solely responsible for looking at fundamental credits that go into the portfolio. So, you know, we think it's always good to kind of, you know, add to the team over time and he'll be a great addition, I think, for a long time.

I'm going to keep it brief because I know we're a little bit behind. But on page 3 I will talk a little bit about the key issues facing the market today, portfolio characteristics and performance, and then just a brief market outlook on what I think -- what we think might happen going forward.

On page 4, I have inflation rates of major economies. And I think one of the biggest things affecting the global marketplace is the threat of deflation. And if you don't want to say deflation, the lack of inflation.

You basically have central banks around the world lowering interest rates, easing their monetary quality for the better part of seven or eight years. And we have very little inflation to show about it.

Go to page 4 -- or page 3 -- page 5.

Commodities. We've all seen oil go from $110 to $38. It rallied a little bit yesterday. But, really, this is a chart of price level of commodities, including anything basically that comes out of the ground: Oil, metals, gold, agricultural products. We're at, you know, medium- to long-term lows with regard to commodities. Again, a very disinflationary characteristic impact on the economy.

When you look at the growth side of things on page 6, this is the GDP rate, GDP of various reasons, US, Euro Zone, Canada and Japan.

And, again, when you think about monetary policy and the effects it has long-term, you would hope that we would be able to generate higher levels of growth, which it really hasn't -- and we're kind of the best house in a bad neighborhood, so our growth rate is averaging about 2.2 to 2.5 per year.

I think if you look back to prior cycles, we should be up around 4 percent, which we're not. So you couple very long inflation, very meager GDP growth, and you have a recipe that we see on page 7, which is basically a race to the bottom with regard to currencies.

So what deflation does to an economy is it forces economies to deal with these high levels of debt. And the way they do it is they try to devalue their currency because they're basically paying back their debt with cheaper levels of money.

So you hear stories about the strong dollar. Again, that's a house in a bad neighborhood. When you look at it versus Europe, Japan and Canada, very strong and will probably continue to be so moving forward.

DR. HERBERT: What would China look like at this time?

MR. BELLAMY: China's pegged to the dollar, and obviously they devalued last week and they will probably continue to devalue because they're struggling with the same issues, right? Slowing

GDP growth and very little inflation.

So, you know, what they're trying to do is they're doing the same thing, kind of racing for the bottom.

DR. HERBERT: If you were charting that, charting China --

MR. BELLAMY: Oh, it went down. It was down 3 percent last week, which is a big move. It's between the yen and the euro.

And then lastly, staring up front and center, is the fed. So on page 9 it shows you the historical fed funds rate, going back to 1995, where the days of 6 percent yields in your checking account or your money market account, long gone. But they were -- they were upon us back in the mid-90s, right?

So now when you save money, you put it into your account, you get zero. Sometimes you have to pay. You pay fees on it.

So now we've had years of record monetary expansion over the last seven years. We've been at zero since the middle of 2008. September thought being they're going to raise.

With GDP where it is, where inflation where it is, it's going to be very difficult for the fed to raise the interest rates. If they do, it may be an 8th of a point, maybe 10 basis points. But it's going to be very difficult.

Because what happens when they raise, everyone else is lowering rates, that dispersion in currency gets even wider. So it impacts companies from an export standpoint because they're -- you know, the dollar is expensive abroad, so why would people buy American goods?

And that's really the issue, and that's going to be the thing to watch.

With regard to interest rates, you know, I think we would continue to be in a very range-down environment with interest rates. And I'll talk about as far as the outlook in a second.

But on page 10 is the account. We manage about 138 million for you guys, again, in fixed income, Core Plus. And it just shows you the additions and withdrawals on a cash-flow statement.

And then with regard to the portfolio on page 11, how are we positioned given this backdrop? We are taking -- and this is on page 11. We're slightly short duration, so we're talking a little bit less interest rate risk than the benchmark. And that's just because we are at very low interest rates and they could go up modestly, but we certainly don't see them spiking anytime soon. And that's much more of a tactical call than a strategic call.

We are neutral in the yield curve position, so we're fairly evenly weighted across the -- across the yield curve from 3 months to 30 years.

We're overweight spread product. So we have higher yielding products, corporate bonds, credit, mortgage backs and the like, and that leads to a higher yield versus the Barclay's Aggregate, which for a fixed-income guy, we think yield wins over time. So you really want to generate more yield for the plan over market cycles.

The characteristics. Just broken down on page 12, you can see, I think, the biggest thing is our overweight credit, lower left. We are in the high 50 percent. The reason we are like that is because coming out of 2008, you've really seen corporations shore up their balance sheets. So from a fundamental analysis standpoint, very strong balance sheets, X energy.

So we think it's a great time to invest in corporate bonds and supply the portfolio with more income and more yield.

And then on page 15 on Performance, over the last year we've returned about 2.3 percent, which is about 50 basis points higher than the index at 1.8. Longer term by about 2 and 3 quarters versus 1.8, and at five years we're at 3.9, almost 4 percent, versus the index at 3.3 percent.

So we have seen strong outperformance. We think it's an environment for active management. Liquidity in the bond market has gotten more strained, which allows active managers to take advantage of those opportunities. So from a manager's standpoint, we actually like this type of environment.

So we think there are going to be opportunities for fixed income going forward. I think negative returns in fixed income, which everyone is talking about with rates rising, are a long way off, especially given -- if you look at those inflation numbers, it's just going to be hard for rates to rise because, from a consumer standpoint, it's all relative. All right.

So people -- you can't say it's cheap money at 4 percent. Well, if you goes to 5, it's still cheap money, but everyone has a 4 percent mortgage. So when you start running the numbers, it's expensive at 5 percent. So any uptick in interest rates, I think, would be moderate at best.

That's all I have. Does anyone have any questions?

MR. HOLMES: Bill, are you underweight in energy, in the energy sector?

MR. BELLAMY: We are. We are. We own very few energy bonds, and what we do own are much higher quality. And it's been -- it's been obviously a great space to avoid.

You know, that's what we try to do. We try to buy bonds. We try to do the analysis on bonds where we can sleep at night. If we really like the companies, we like the amount of leverage they have, we like to spread their trading out.

So it's really -- you know, we try to do kind of what I call a sleep-at-night credit portfolio.

MR. TUTEN: What is -- you know, a lot of people -- and you've touched on a few things, but a lot of people say the lack of inflation, different reasons, this and that. But, you know, you touched on GDP allegedly going up; but, you know, they change the parameters, how they measure all that good stuff.

One line of thinking is the fact that oil and everything is going down simply because there's the lack of demand. I mean, people are pointing to fiscal policy, this and that, but they're really not getting to the crux of the issue, which is these economies around the world are really not picking up steam like they thought they would, even with all the stimulus.

My question for you, being the fixed income guy, is, you mentioned the corporate balance sheets. But going forward, if these corporations are maybe looking at, you know, not bringing in quite the income, is that going to affect you guys as far as the bond guys go, as far as their issues, or is it pretty much set in stone when you buy the bond from them?

MR. BELLAMY: I mean, it's -- that really impacts the stocks first --

MR. TUTEN: Right.

MR. BELLAMY: -- so what we -- the analysis we try to do is say, Okay, here are the assets of a company. Okay?

And the reason why energy companies got hit is the value of their assets have gotten nabbed, basically. So if they have debt this high, they have assets here, okay, it looks okay, and then all of a sudden their assets are worth this? Well, then the bonds become impacted.

So we try to find businesses where the asset values are fairly stable, right? So much less volatile on the asset side.

So what you're talking about, I think, impacts equities far more than fixed income, but it's certainly something that we're, you know, always looking at from a -- you know, from a secular standpoint of the individual business.

MR. TUTEN: You guys do high-yield stuff?

MR. BELLAMY: Yes. So this portfolio, it's Core Plus. We used to only manage only traditional fixed.

Dan, we added high-yield two years ago?

MR. HOLMES: Yeah.

MR. BELLAMY: Up to 10 percent in high-yield.

MR. HOLMES: Yeah. Is that mainly fallen

angels?

MR. BELLAMY: Yeah. I mean, we're single B and double B. Again, a very high-quality type credit. You would recognize 90 percent of the names.

MR. GREIVE: Mr. Chairman, if I may.

CHAIRMAN SCHMITT: Yes.

MR. GREIVE: So you've done pretty well in recent periods. What do you see is the biggest risk to your strategy right now?

MR. BELLAMY: The biggest risk is a 2008 again where credit dries up, liquidity goes away, and people start to question the financial system.

2008 was clearly a credit-centric recession, and that's the risk. I mean, we're heavy into -- on the credit side, but we're heavy on the credit side is because we think what happened in 2008 is going to be very difficult to happen again because all of the weak links kind of got washed out of the system in 2008.

MR. GREIVE: Thank you.

CHAIRMAN SCHMITT: Any other questions?

MR. KEANE: Any questions, Director?

MR. BUSSELLS: No, I'm good.

CHAIRMAN SCHMITT: Okay.
MR. BELLAMY: Thanks. We appreciate your relationship.
MR. KEANE: Thanks. We appreciate it. You-all have a safe trip back.
MS. MUSSER: Thank you.
MR. KEANE: Our next item on the investment agenda is Dan Holmes. We have a Flash Report.
MR. HOLMES: I'll touch base on the Flash Report real quick and then yield to Chris.
We have three things on the agenda today: The Flash Report, the full quarterly review, and then the private equity and investment education.
The last issue is probably the most important issue. Chris Keller, Director of Private Equity Research at Summit, is with me today. I'll just give you a quick update in terms of performance, and then I'll turn the floor over to Chris, if that's okay.
CHAIRMAN SCHMITT: Please.
MR. HOLMES: Okay, great. Thanks.
Without -- I'll refer to -- first of all I'll just kind of give you a quick update.
First for the quarter, which is -- the quarterly review is contained in the blue bound

book.

For the quarter, returns for fairly lackluster during the course of the quarter. Equity returns were basically less than about 50 basis points. MLPs were significantly negative. Bonds were also negative due to the rising rates.

So as a result, there wasn't many asset classes that had good returns other than maybe real estate for the course of the quarter.

So the quarter's return was up about 60 basis points. It outperformed the policy index and ranked in the 11th percentile of the public plan peer reviewers.

For the fiscal year-to-date, return is up about 4 and 1/2 percent, and was about 1 and 1/2 percent above the policy index as well.

Couple things with regard to managers. Two of the managers that we have been watching for poor performance have been improving. That's Gabelli, GAMCO, and also Brown Capital.

We've seen a rotation in the market, moving back around toward gross stocks, moving away from expensive defense sectors. That's exactly what Brown had said needed to happen in terms of the end of quantitative easing, and their performance is responding accordingly.

Conversely, a couple other domestic equity managers have traded off, Pinnacle in particular. Sawgrass as well. They're both growth managers. And some of their sector and stock selection has provided a wind in their face, if you will, over the course of the past couple of months.

Again, neither manager we're overly concerned about, but performance is below the index.

Quick update in terms of the Flash Report. Flash Report, the only difference really is, is that it's a monthly estimate and it's through the end of July.

And so the total fund return was down about 25 basis points. So the fiscal year return moved down to about 4 and 1/4 percent, still above the policy index by about 85 basis points, but moved out about 25 basis points.

I'll leave it at that unless there's any questions.

And Rich -- Trustee Tuten had asked for a performance estimate through August. You know, obviously August is not over so I can't give that particular estimate, but our performance analyst did a quick back-in-the-envelope estimate on the calendar year-to-date return through yesterday, and it's down about 1 and 1/2 percent.

So that's -- with all the volatility in July and August, that's basically where the plan is on a total-fund basis through yesterday.

MR. TUTEN: Through yesterday the total fund was down 1.5?

MR. HOLMES: Yeah.

MR. TUTEN: Okay.

MR. HOLMES: And that's, again, a quick back-in-the-envelope estimate.

MR. TUTEN: Thank you.

MR. GREIVE: For the month of August?

MR. HOLMES: No. Calendar year to date.

MR. KEANE: Is there any good news in the market this morning?

MR. HOLMES: Not as about five minutes ago.

MR. GREIVE: Flat to slightly down.

MR. KELLER: You've got to check again. That's stale.

MR. HOLMES: Let me quickly end with this, and I'll turn it over to Chris.

On Monday I put in -- my apologies to Joey. He had to hear the story yesterday at the employee's retirement system meeting.

I was having a similar meeting with an investment committee with a client on Monday when the market opened down a thousand. And the investment committee was obviously worried, and one thing I had pointed out to them was we had gone through -- annually we go through an asset allocation review. We look at the target allocation. We examine our capital market assumptions.

And so we had just previously established the fact that the funds had a long investment time horizon. We had established the fact that they did not have any liquidity concerns. As a matter of fact, they wanted to move more into the private area because they did not -- liquidity was taken care of.

And so my point was that we haven't changed our capital market assumptions. We don't have liquidity needs, and we don't -- and our target asset allocation shows that over the long investment time horizon, that investment time horizon has not changed over -- you know, so with all that in mind, we don't need to be overly worried about and not panic about day-to-day changes in the market.

If our liquidity needs change, if our investment time horizon shortens up or we change our capital market assumptions, then we would have that conversation.

Now, in the interim, we look at the dislocations in the market for opportunities, and if we see opportunities, perhaps rebalancing back the target in terms of MLPs where we believe that they are overly cheap, we'll come back to the chairman and investment committee and make that recommendation.

So my advice would be not to get too worried about the day-to-day fluctuations of the market because we have a longer-term plan in place.

With that, I'll ask if there's any questions. And if not, I'll turn over to Chris for education on private equity.

MR. KEANE: And before you do that, just to keep the record straight, the next item on the agenda is Old Business, the Financial Report from GSK, which we've already received. And so we will show that in the minutes as received earlier in the meeting.

And now we're ready for the target program that you're going to give.

MR. KELLER: Okay. Well, thank you for having me. I apologize for my voice. I'm still dealing with an August cold or an allergic reaction from New York city or something. So if I sound a little stuffed up, I apologize.

So what I've put together here is a few pages, just kind of basic overview of the private equities and asset class, more of an educational document, and then sort of the second half of the presentation includes some -- some thoughts and recommendation in the way we think about the market and, you know, sort of recommendations on sort of best -- best ways to implement in private equity.

So on page 2, just to help kind of orient people who are unfamiliar with the asset classes and some of the terms and the way the asset class is structured, first off I just want to point out that we use the word "private equity" kind of in a generic way.

So it covers a lot of underlying, specific strategies, such as noncore real estate, infrastructure, energy, corporate buyout, lending, venture capital. So it's a hodgepodge of different specific areas, but we sort of roll it out and generically call it private equity.

So pretty much everything I'm talking about today refers to all of those. The basic commonality among all those types of substrategies is illiquidity. So these are almost always structured as ten-year partnerships where the general partner calls down the capital to make investments as needed. And generally the liquidity is -- you know, you expect to have your money called from you over the first, you know, five years, and then begin receiving your money back between year six through ten.

On the left-hand side is just some different ways in which basically money goes from investors down into specific companies, sort of the limited partners or plans like yours can invest directly into those companies.

I'd say that's the most unusual way to do it, is identify and make a direct investment all the way down to a company without any managers in between. That's very unusual. Some of the Canadian pension plans have done that, but that's not very common practice. More common is to hire a fund-to-fund manager or go directly into fund managers themselves.

So we'll talk a little bit about those two implementation options, but it's really a trade-off between expenses or fees associated with those two structures and administrative issues.

So fund-to-fund is kind of being more administratively simple, but higher cost. Directly into funds, you know, may be a little bit more administratively burdensome, but definitely a lower cost.

On page 3. So it is an illiquid asset class. Why do people invest in private equity? So a couple pages here on kind of the whys. Basically it's performance. So over long time periods, private equity is expected to earn a premium relative to public markets.

So on the top here is some data from Cambridge, which is a very large consulting firm. It has -- publishes some benchmark data on the asset class and shows in the blue bars the returns for private equity, and in the red and green bars, returns for the Russell 2000 and the S&P 500 over different time periods.

You can see over the shorter time frame, it's been a very strong equity market, sort of keeping up with the equity markets. But over significantly longer time periods, 10 and 20 years, we see outperformance anywhere from 4- to 600 basis points. And that's consistent across other benchmark providers as well. It's a fairly common --

MR. TUTEN: Let me ask you a question. How easy -- how is it correlated more to that than it is to the actual, you know, American S&P 500? You see what I'm saying?

MR. KELLER: Down the table below, Private Equity --

MR. TUTEN: Yeah, your MSCI. I mean, it's actually more correlated 0.63 to that -- or about the same as the S&P 500. You know, I just kind of found that curious.

MR. KELLER: Yeah. I think it's a mathematical anomaly as much as anything.

MR. TUTEN: Really?

MR. KELLER: I wouldn't say there's any theoretical rationale that would justify.

MR. TUTEN: All right.

MR. KELLER: Yeah.

And that's the second point is -- so you get premium returns relative to the public markets. We do get a modest correlation benefit, which, when you put those together, you can a more efficient portfolio. So that's kind of the mathematical construct for why people are investing in private equity.

On the second page -- yeah, on the second page -- or I guess that's page 4, you know, sometimes people are curious, Why does it earn a premium return relative to public markets?

And this just lays out some of the more academic or theoretical reasons on why private equity earns a return.

The first and most important issue is probably the inefficient markets. So these are markets that are not readily accessible to any investor. These are highly negotiated transactions.

So if I'm a private equity fund manager and I want to buy a company, I'm not buying the stock on a market. I'm having a one-on-one negotiation with a management team or an owner. And that allows for an opportunity to negotiate the price on metrics that may not be totally about paying the highest price.

Or it's just, you know, small business owners want to interact with a particular firm and just allows for a more inefficient sales process, which is good for investors. You know, governance in control, so a very different ownership model than in the public markets.

Oftentimes, in particular, we're talking about the buyout space, we're talking about a manager who owns a hundred percent of the equity of the firm. So they control the board. They hire and fire management teams at their discretion, can control, you know, capital spending or how the balance sheet is structured. So there's a lot of control built into the ownership structure of this asset class which can yield some benefits to investors, highly aligned.

You know, none of that is free. It comes with additional risks. And that's the bottom two points on here, is that the question is, Are you being compensated for that risk?

And so clearly we're taking -- we're either levering these companies. In the buyout space there's a leverage premium associated with owning these companies, or in some cases, more in the venture end of the spectrum, you're taking more of a start-up risk, a failure risk associated with these businesses.

And so the question is, Are you being compensated for that risk? And I think the data on the page before shows that in long time periods you are. And clearly a liquidity premium. If you're going to lock the money up, investors demand a higher return on their capital.

So that's it for the pros. I wanted to spend perhaps more time on some of the cons, unless anybody has any questions on the benefits.

So on the next page, you know, there's a lot of drawback to the asset class in addition to the lack of liquidity, and I just want to make sure people understand some of these features.

So it's an expensive asset class. These managers typically charge fees that are significantly higher than you see in traditional asset classes. So we tend to talk about a 2 and 20 fee structure, a 2 percent management fee, and a 20 percent carry, which is a profit share on the eventual exit of these investments.

MR. KLAUSNER: That's what they call a (inaudible) I saw your head.

MR. TUTEN: Yeah. I know what it means.

MR. KLAUSNER: That's why these are partnerships.

MR. TUTEN: It's expensive.

MR. KELLER: It is expensive.

MR. TUTEN: Go ahead. I'm sorry.

MR. KELLER: But the returns I was showing earlier and the outperformance relative to the public markets, those were net of fees.

So accounting for those fees, the asset class still has outperformed, but I don't think you -- you know, obviously fees do matter. And I'll talk a little bit later about some of our philosophical biases in trying to manage out some of that fee burden. You can't get rid of all of it, but we do try to manage around it.

You know, another concern or maybe just something people don't appreciate till you really get in and start building a program is we have to do what we call over-commit. And I'll talk a little bit more about the cash flow dynamics of these partnerships. They're drawing the money from you and then returning it to you over those five- and ten-year periods.

Because of that cash-flow dynamic, you

actually have to commit more to the asset class than your target. So if you wanted $100 of exposure in private equity, you would actually have to commit about $150 to the asset class to kind of reach and maintain that target.

So there's this risk that your liability -- if suddenly the manager never -- the managers never return any capital to you and call all your money at once, you could be over your target by about 50 percent. So that's just a -- it doesn't happen. Even in the depths of the crisis we did not see that, but it has -- it has the potential to happen.

And then I guess maybe, you know, administrative burden. I kind of talked about that earlier in terms of fund-to-funds and direct.

These are -- because of the concentration of the underlying funds, because of the way we want to manage the risk through what we call vintage year diversification, which I'll talk a little about later, we end up with more fund products in this part of the portfolio than you would normally see in your fixed income or your equity portfolio. So that comes with a certain administrative burden to manage that.

And then the last piece at the bottom is just to sort of inform that the reporting dynamics, the benchmarking in this asset class, are more complex than you would see in the other parts of your portfolio as well.

So there's not much to say there other than just partnerships takes longer to produce their reports and filter its way into the type of report that Dan just walked you through. So there's typically a lag in their transparency in how you're doing.

MR. HOLMES: Chris, you might want to say something about pricing. With public market investments, we get price fees from the custodian. They price the actual securities in the portfolio, but in private equity it's done differently.

MR. KELLER: In terms of the marks that you report?

MR. HOLMES: Yes.

MR. KELLER: Yes. So Dan is correct.

So in the reporting construct, we will use -- the custodians still do generate a report for a time-weighted return, so you get those numbers. But there are some errors, so to speak, in the way those numbers get reported.

And so what we do is we supplement your custodial based report with a manager generated -- manager reported numbers.

So basically we get capital account statements from the underlying partnerships. We compute the cash flows or track the cash flows as they go in and out of these partnerships, and when the manager strikes the NAV and produces the capital account statement, we consolidate those in a separate reporting system, consolidate them up, and produce a supplemental report that gets inserted into your Flash Report.

So you can see how the partnerships are doing individually, in aggregate, but they're typically in a three-month lag.

So Dan was just walking you through your June numbers. We would probably be looking at March numbers here in August just simply because we don't have --

MR. TUTEN: So if you did an investment report, you would basically almost have to create two reports because you figure, like you said, you put at least 5 percent of more of assets.

That 5 percent is going to skew the results for the pension fund, which is, you know, not a big deal long term because we know we can catch up.

But when it comes to, you know, people looking at the returns of our pension fund, you know -- and I don't know how much it actually affects it, but that's -- 5 percent is going to have an effect, you know.

And I'm know what you're saying as far as you can approximate and do your best, but you really don't know what the return is for the first whatever because, you know, private equity is just that, private. You know, it's kind of hard to get an idea of what the -- but anyway.

MR. KLAUSNER: How do you track the carried interest for reporting purposes?

MR. KELLER: So the managers accrue for potential carried interest on their own capital account statements. So there's no separate accounting adjustment by us. But we do, through various dialogue with the manager and reviewing of their financial statements, you know, test for the appropriate accrual of that carried interest.

They do have -- annually they are audited and the auditors are checking their math as well.

The interesting thing about private equity, just to draw a distinction from any hedge funds, is that carried interest is only paid at the end of the fund life, so it's an accrual only, not a cash payment to the manager.

MR. KLAUSNER: That was my point. There's been some controversy in the industry, meaning the public pension industry, about carried interest, because that's really the big payout that you have. You know what your manager fee is. It's a flat percentage and you just -- the math is ongoing.

But the bigger payment is assuming they reach the necessary benchmark, you've recovered your contributions, and now you're really partners in the profit on this split, there are some funds that have not been reporting the potential carried interest.

I think it is appropriate at least, you know, mark with an asterisk to say this is an estimate. Is that something that would be in your reporting?

MR. KELLER: So we don't generate a separate report that highlights the carried interest, but it could easily be done because it is in the financial statements that we receive from the managers. And so you can point directly to the line item and say, This is what you're accruing. This is what they -- their math suggests they've earned to date as a potential carried interest, because it gets netted out of the -- your net returns include that accrual.

MR. KLAUSNER: And I think that's important for the Board to have because it gives you a better ongoing view of what you're really going to make on the deal.

And chances are this fund is going to use a fund-to-fund approach. So, in essence, you're going to be in a number of private equity arrangements even though you're owning shares in this fund, and they'll all have different carried interest. So it's important to have reporting so that you can look forward and say, at the end of the life of this commitment -- usually ten years or so, five, ten years?

MR. KELLER: Ten.

MR. KLAUSNER: Ten. That you know what you can expect to make. They really don't know exactly until the deal is over and you really made a profit and you got back your money, and then everybody split up the access.

But the carried interest, the inability to see the estimated carried interest along the way, I think, would be a missing part of your duty to follow the value of the project that you're in.

MR. TUTEN: And do you-all have a list of other public funds like ourselves that actually invest in private equity, and how much do they put in and what are their returns maybe for the last whatever?

I mean, private equity is a very -- you know, forget all the fees and things. We're a public pension plan. We've got to maintain a certain level of liquidity. In my personal opinion, I like to be 100 percent liquid. But I understand as investments, we're diversifying, et cetera, et cetera.

It's expensive. It's risky. It's not transparent. It sort of kind of goes against the whole public pension retirement creed and motto as far as what we do.

I mean, it's -- and I have nothing against them, but it's just if somebody can show me where other pension plans have done this with a successful track record over time, not five, not ten, but I would like to go out a little further because I just don't feel comfortable putting this kind of money into something that I can't get back for ten years.

MR. KLAUSNER: There actually are some statistics that are maintained on it. The US Bureau of the Census actually maintains very detailed records of investment categories and success by public pension funds, usually state funds because of size.

In our own experience, we have funds that we represent that go as high as $335 billion, and they're running about 5 percent in private equity, maybe 10, depending on where they are in the life of the process.

But I think to see a public pension fund of your size with 5 percent in private equity would not be a surprise to that.

MR. HOLMES: I agree.

MR. KELLER: I would agree with that. In fact, I think having zero is probably maybe even unusual for funds of this size.

MR. KLAUSNER: I only know of one of your size in Florida.

MR. TUTEN: Well, what I would like to see, and this goes to Dan -- what I would like to see before we -- and you may be -- are we going to get into other alternative investment classes or, like, possible, like bumping up high yield or anything?

In other words, I would like to explore all the options we have out there besides just the S&P 500, Core fixed real estate. You know, in other words, is private equity pretty much the last bastion for us as far as getting into alternative investments? Is that what --

MR. HOLMES: You're not allowed to invest in hedge funds, per the ordinance --

MR. TUTEN: Right. Well, not hedge funds.

MR. HOLMES: -- is my understanding. So private equity and, you know, probably natural resource private equity.

MR. TUTEN: Like timber or something?

MR. HOLMES: Timber probably is permissible under the real estate. It depends on kind of what the underlying deals look like and who the manager is, what they're actually investing in.

MR. KLAUSNER: You're talking oil, primarily, energy?

MR. HOLMES: Natural resources would be

energy and (inaudible), things along those lines.

And so a broad read of that would include that, you know, the permissibility under private equity because it's the same type of investment structure.

But we're essentially talking about the same investment vehicle. It's private. It's illiquid. It's a, you know, multi-year life. You can't get out of it unless you sell it on the secondary market.

I mean, that's really -- other than maybe a few things, you know, some small, little minor strategies in fixed income or international equity, if you want to get really specialized, this is it. This is kind of what -- what your options are outside of what you currently have.

MR. TUTEN: Well, like I said, I just -- show me examples of people similar to us, similar returns, similar investments, because, I mean, 5 percent doesn't sound like a lot, but we're not -- we're actually a medium-sized pension fund. I'd say large -- small- to medium-sized pension fund. We're not a large pension fund. CalSTRS, that's large. FRS, that's large. 1.6, probably 1.4 billion at this point, not that large. And 5 percent is 70 million bucks.

MR. HOLMES: So to answer your question, of the total public plan universe -- so this doesn't break it down necessarily according to size -- but looking at the entire public plan universe, the median in alternative investments, not including real estate, is 11 percent.

MR. KLAUSNER: But that includes hedge funds as well.

MR. HOLMES: That includes hedge funds. Correct.

MR. KELLER: And to your point about performance, I'll provide this data to Dan and he can -- he can bring it back at your pleasure.

But I looked -- in preparation for this, I looked across our clients, so a sample set including about 20 clients that are public pension plans.

And the net sort of additive performance of private equity over a reasonably long time period -- I don't know the time period, but it was not like the last year; it was like a ten-year frame time --

MR. TUTEN: Right.

MR. KELLER: -- was about, depending on the client, 200 to 400 basis points. So roughly in line with what we would --

MR. HOLMES: That's net, right?

MR. KELLER: That's net.

So roughly in line of what we would have expected based on the benchmark data. So it has been additive to client portfolios over the longer time frames. But I could share that with Dan and he can report back to you.

MR. HOLMES: And, finally, with regard to liquidity, a 5 percent allocation to private equity is not going to impact total fund liquidity.

The vast majority of the assets are liquid, and even if we got into a situation like 2008 where the liquid part of your portfolio went down in value and you still had to meet capital calls on your private part of the portfolio, you would still be able to do that with the rest of the assets. You wouldn't get into a liquidity overhang situation, like many of the endowments and foundations did.

MR. TUTEN: Well, I don't really worry about liquidity as far as us having cash-flow problems. Obviously, if we're down to 70 million bucks, the whole pension is in trouble.

But I'm worried about more like where we've mentioned before over the years with real estate back in the '80s.

In other words, if we hear a bugaboo about a certain investment or a certain manager or a certain whatever, and we say, You know, we probably need to get out ahead of the curve on this one, there is no head of the curve. We're just resigning ourselves to basically, hoping for the best or eat it because we can't go get it, you know.

MR. KLAUSNER: There's a very small secondary market. It's almost exclusively a fire sale --

MR. TUTEN: Well, I agree. I understand that. And I'm not trying to give you guys a hard time. I'm just doing the whole worst case scenario where a public plan, where every dime we spend, every fee we pay has been under scrutiny and will continue to be under scrutiny.

MR. HOLMES: Understood.

MR. TUTEN: And I do not want to, you know, make a mistake just because we don't have anywhere else to put our money. That's just all

I'm saying.

MR. HOLMES: I'm glad you're asking these questions because the whole purposes of bringing Chris here and having his presentation was, this was the conversation we needed to have before a decision was made to move forward with regard to any type of a private equity allocation. And so that's why we're having this conversation.

MR. TUTEN: Okay. Let me ask you this, then, Dan.

Say we go ahead and get squirrely, we're going to do it. Do you guys bring us a list or you just make the pick of the manager as far as who we're going to put the money with?

MR. HOLMES: The first question would be, how would we -- how would it be employed? Would it be solely from the funds? Would it be a combination of fund-to-funds and directs, or would it be a fully direct program? So that's a decision that would have to be made by the Board.

And then from there what we would do is, I don't think you can or would want to do a public RFP for this particular area. It would be a nightmare.

In addition to that, what we would do is we would try to identify what we thought were good strategy opportunities for the particular vintage year or the particular time period.

I think what you would want to avoid is the huge, mega, broadly diversified portfolios or products right now because there are some strategies -- at least in our opinion, there are some strategies that we would want to avoid.

And so we think that a little bit more of a targeted approach emphasizing strategy, given what current market conditions and, more importantly, projected market conditions look like is the better way to go. And right now I'm treading on a lot of what Chris was going to say.

But do you agree, or what do you think?

MR. KELLER: Yeah. So, I mean, to answer your question about depends -- fund-to-funds, we tend to bring -- clients like us to bring three ideas forward for discussion. And, you know, we can lay out the pros and cons of each.

But generally speaking it's an opportunity to kind of think about three different options and kind of select the one that works for the client.

The direct side doesn't lend itself to that type of process very well. The time frames in which these managers are raising money can often be much more quick than we see on the fund-to-fund side.

And so to be in the best managers to sort of access the very best performing funds, you need to have a time frame for making decisions that doesn't necessarily fit with building a three-manager, you know, sample set to select from.

But in all cases, you know, every client that we do this with, we may bring those individual manager ideas forward on the direct side, make a case for it. Some clients like to interview the managers. Some like to just interview us and ensure that they're comfortable with the investment. But sort of vote that idea up or down on its own as opposed to kind of a panel of three to choose from.

MR. TUTEN: Right.

MR. KELLER: Because it's very challenging to find three -- to Dan's point, you know, in the market, if you wanted to kind of buy the market, very big buyout funds, we could probably put three together and you could choose one.

But we prefer -- we think the better implementation or the best spots in the market are a little bit nicheier, a little bit more inefficient.

And so, you know, we really like a small-cap, consumer-oriented buyout fund. It's hard to find three small-cap, consumer buyout funds in the market at the same time from which to make that choice.

So it just doesn't lend itself very well to that kind of decision.

MR. TUTEN: Well, I don't necessarily say we have to interview like an RFP like we used to do. But what I would personally be comfortable with is who you pick, how long they've been doing it, other people they do it for, their returns on average, fees on average.

In other words, before we decide to say, Yeah, let's go ahead and invest in private equity, who do you want us to invest with and why, and let's see it. And then we could do it up or down --

MR. HOLMES: We would certainly do that.

MR. TUTEN: Okay. Well, I know, but -- well, sometimes, you know, we'll vote to diversify without actually, you know, seeing what we're going to do, and this is something that I just don't -- I understand it. I understand why people do it, but in a public pension fund, I'm just a little more cautious than buying S&P 500 shares.

MR. KLAUSNER: You would be -- the reason why you don't -- wouldn't do the traditional RFP that you've done when you're looking, say, for a fixed income manager or a large-cap value manager is these are people who -- with the directs, these are people raising money to do X, whether it's build to something, start of something --

MR. TUTEN: Right.

MR. KLAUSNER: -- you would be overwhelmed by everyone who's --

MR. TUTEN: I understand, yeah. We don't want 400 people --

MR. KLAUSNER: -- you know, the next Apple in mind. And you could never -- you could never manage your way through the numbers, nor could you manage your way through the security of the investment.

So that's why for a fund of this size, a fund-to-fund arrangement is probably more manageable from your perspective.

MR. TUTEN: I agree.

MR. KLAUSNER: It does have higher fees because you've now got this general partner who is managing this group of funds, and you'd -- you know, everybody you've got in the -- all the layers you've got in the process, everybody gets a piece of the activity.

MR. HOLMES: We've had some pretty good success where we've used fund-to-funds as kind of a core, especially for, you know, some -- our research shows both as a core, but also from venture capital. I think that's a little bit more efficient way using fund-to-funds.

And then using some specific direct strategies around that, a combination of that, has worked very well for the clients as well.

MR. KLAUSNER: And I think before the Board made a decision on that, I think there would have to on an even higher level of education with regard to the specifics that you bring back so that, just briefly speaking -- it's probably too late for me to be brief -- but to speak to Rich's question about liquidity within one of the statutes that governs us, 112.661, we're required to take into account within our investment policy statement the overall liquidity of the portfolio with regard to actuarially projected payment needs of our membership.

So I don't think, given the relatively small exposure, it's going to be make a different because you are not cash negative.

But anytime you take liquidity off the table with regard to investments, you're correct to be concerned about its impact on the overall portfolio as a whole.

MR. HOLMES: And this is step one for us. That's why we wanted to start with this.

MR. KLAUSNER: That's a good idea.

MR. HOLMES: Chris.

MR. KELLER: Do I have more time? Do you want me to keep going?

MR. KEANE: Couple more minutes.

MR. KELLER: Okay.

Does anyone have any specific questions that they want me to turn to in the book? I think in the interest of time, there's no way I'm going to be able to get through all of it. I'm trying to think of what would be most useful.

MR. GLOVER: But to Rich's concern, when

we -- when we are compared to other funds, we are generally compared to other public funds, right, which would also be similarly invested, right?

MR. HOLMES: Yes. Yes.

So the same way that we compare your total plan against public pension plans and your managers against their peers, what we would also do is, in the world of private investments, compare performance against other private investment performance of the same vintage year.

MR. KLAUSNER: Could you go to page 20?

MR. KELLER: Sure.

MR. KLAUSNER: Because that actually how you would act -- that actually shows the model for commitment of money and how the money gets into the project.

Now, traditionally in the private equity that would be applicable for this fund, do you pay a fee on uncommitted funds?

MR. KELLER: On committed but on drawn capital?

MR. KLAUSNER: Yeah.

MR. KELLER: That's typically the case, yes. So --

MR. KLAUSNER: Which is different than real estate, where you usually don't pay if it's not in the dirt.

MR. KELLER: Yeah. You know, back to my earlier comment about ways that we have identified to try to manage down the fee burden a little bit in the asset class, there is one area of private equity where we have found and largely favored getting fees on invested capital, and that is in the private credit space.

So whether that's lending strategies like Mezzanine or even distressed debt, a lot of those funds have adopted fees on invested capital model, which means you're not paying on uncalled capital, which obviously has -- is a net savings to the investors.

So we have favored that and largely used those favored managers for those fee structures, but it's one piece of a larger puzzle.

So on page 20, what this represents is what we call a Commitment Model. So let's assume you set a target allocation to -- to the asset class and call it 5 percent. How are you going to get there over the next couple of years?

And what we very strongly advocate is not trying to do it all at once and trying to make a a very substantial early commitment and just get to target in one single year, but to space those commitments out over several years and do it in a more modest pace.

The single largest risk in the asset class in terms of what you do and how you do it is vintage year risk. So market cycle, obviously. And we believe it is the best -- the best way to build the long-term positive returns is to meter the money in or a time frame that doesn't take undue vintage risk.

So that's really what this is meant to represent, is evening out those commitment paces over four to five years, that you've reached that target in a very programmatic and planned way.

The gray line just shows you the estimated NAV. The red line is the target. The gray line is estimated NAV. So, roughly, takes you four to five years to get there.

The yellow line just represents the over-commitment I was mentioning earlier of assume the manager stopped returning money along the way and drew every dollar from you, that's about where you'd be in terms of how much exposure you'd have with the asset class. So I think people like to keep an eye on that.

And then -- what else should I say about this?

Oh, in terms of diversification. So I mentioned vintage year diversification. You know, we would also -- it's a few pages back, but outline for you a diversification by other metrics. So whether that's manager diversity, not trying to use a single or even two managers for the whole program, but have, you now, anywhere from 10 to 15 managers that you use to create some manager diversification.

Diversify across strategies. So buyout venture and debt are kind of the three big buckets, and diversity across those.

Geographic diversity is also important, probably the least important one, but it's something else we would sort of take into account. It would probably be a US-Centric portfolio, but there are certainly interesting opportunities outside the US as well. And so there would be some degree of geographic diversity built into the portfolio as well.

MR. KLAUSNER: Would you look at page 26, which explains how the money gets split up in these deals?

MR. KELLER: Yes.

So on page 26, because the fees, the carried interest, et cetera, can often be a little confusing because it isn't as straight a formula as you see in traditional asset classes, what we try to do here is represent a hypothetical fund taken to its conclusion, basically.

So, you know, assuming a partnership here returns 2 and 1/2 times gross, so 250 percent return on investment when it's fully liquidated, how much of that do you get and how much of that does the general partner get?

So what we've shown here is a hypothetical $10 million investment in that fund, and then what we -- and then walk through what we call the waterfall. So who gets what and when and in what priority.

And so you basically work yourself from left to right, and that the limited partner or the investor first gets back all $10 million of their invested capital first. That's the first order.

What I haven't shown here is it's typical also to receive your fees back second. So investment capital, all your fees, and then there's what we call a preferred return. So you are -- the manager is obligated to also generate an 8 percent compounding preferred return on your investment over that time period as well, and that's what's represented in the candy bar stripes there.

And only after doing that, after getting an investor's money back, fees, the 8 percent preferred, that's when the profit share kicks in. And different partnerships have different ways in which the GP participates in that profit share, which is getting a little bit into the weeds.

But, generally speaking, it's 20 percent of profits above that level. And so that's what's represented in the blue bar. The GP will then take excess profits above that, and then it's obviously split 80/20 from there.

So very rough order of math, if you made 2 and 1/2 times your money gross on an investment, you'd expect to get back a little over 2X net on your investment after paying for that carried interest.

Does that make sense?

MR. KLAUSNER: Uh-huh.

MR. KELLER: Okay.

CHAIRMAN SCHMITT: And those returns on page 3 are net of all of those?

MR. KELLER: That is net of all of this. Yes.

MR. HOLMES: We've been talking about fund-to-funds and direct investments. Do you want to kind of touch on page 24 and kind of go through what some of the differences are?

MR. KELLER: Yeah.

So there's a table here and it shows a little bit of a -- I guess it's a little bit of a point that the directs have some benefits cost-wise relative to the fund-to-funds, you know.

In the interest of being fair and balanced, they do come with an additional administrative burden, which I'll talk about as well maybe that doesn't have a slide here.

But basically you take -- if you look at implementing through only fund-to-funds or only direct, and let's assume you invested the same amount each year in both types of -- in both types of funds, how much time would it take for you to reach your target? What's the additional fee burden of the fund-to-funds relative to the direct?

What could that imply in terms of foregone returns? The fact it takes longer to be in the asset class and we were paying a higher fee burden along the way? What does that mean in terms of sort of opportunity costs of the asset class?

So, you know, fund-to-funds are much more simplistic. So if we were building a program for you and we were investing, you know, just hypothetically, 50 million a year and we're using only fund-to-funds, we'd probably bring one or two funds to you every year, and that would be the decision-making process. But it has a cost associated. It's administratively simple, but it comes with an additional cost.

If you're doing directs, we would probably bring more like six or seven ideas to you every year.

So there's more decisions. There's more monitoring and reporting, but obviously the fee savings, we would recommend, is worth it. That's really what this table is meant to represent.

MR. HOLMES: But over time, what does that mean in terms of return difference, if any? And then is that more out of fee savings or is it more out of performance?

MR. KELLER: It's a little bit of both. So I could -- on that you could look at our own data, which is our own selection process and how have we done relative to fund-to-finds direct programs versus fund-to-funds. And, you know, we have tended to outperform the fund-to-fund universe by 2- to 300 basis points a year. So that's one metric.

Another metric would be to look at fund-to-funds versus a direct universe. So a collection of fund-to-fund managers relative to the benchmark. And that's -- Dan sort of alluded to this.

Buyout funds or managers that predominantly focus on buyout strategies, those fund-to-funds tend to underperform the index, partly because of the fee burden and partly because of what we believe is over-diversification.

So there tends to be -- and there's exceptions to this, obviously. Some manages are better than others. But by and large there tends to be a small underperformance relative to the market.

Venture fund-to-fund managers or fund-to-funds that focus only on venture capital have tended to outperform the venture index. So they have added value relative to the -- relative to the universe, which has -- gets to some nuances around venture capital and access to particular managers who are, you know, the hardest to get into.

These venture fund-to-funds have that access, and you're renting that access from them. They've earned their fees.

So did that answer that question?

MR. HOLMES: Yes.

MR. KELLER: Okay.

MR. HOLMES: And then maybe the last question I'll ask.

Looking at the state of the private equity markets or private capital markets right now, what do you see in terms of fundraising; what do you see in terms of opportunity? You know, where are we in the cycle, if you will.

MR. KELLER: Yeah.

So there's a little bit of this on page 11, Market Observations. You know, fundraising is probably one of the single most important things that we pay attention to when thinking about where in the market we want to be. Is it a good point in the cycle; is it not a good point in the cycle?

And fundraising has gotten substantially easier for managers over the last couple of years. So, obviously, postfinancial crisis, there was a period there where it was much more challenging to raise money, which you can see in the kind of fundraising bars there on the top.

It has been very easy lately for managers to raise money. And you can see that in both the aggregate fundraising statistics, but more anecdotally, you'll see it in individual manager fundraising statistics.

And often we are seeing managers raise money in a month. They do it by invitation only. They're widely oversubscribed and, you know, it can be challenging to build allocations with some particular managers.

MR. HOLMES: Is that because market conditions have improved or capital seeking a place to reside?

MR. KELLER: I think it's a little bit of what we call the denominator effect. You know, people's, you know, general portfolios have been rising the last few years. So it creates -- if you're chasing a target number that's based on percentages, it means more money needs to get into the asset class.

I think by and large we're seeing more and more institutional investors and high net-worth investors adopt private equity as a -- as a part of their allocation or an increasing part of their allocation because, you know, whether it's they believe in the asset class or they're solving for a return estimate for the plan at large when fixed income is earning, you know, 3 to 5, it sort of guides you to some higher risk strategies.

So we're seeing -- you know, sort of a larger allocation to private equity, which is guiding fundraising to these new levels.

So I think, you know, those are probably head winds to the private equity industry. You don't like to see a lot of fundraising here.

I think there are parts of the market that are more starved for capital than others, and that's part of what our research is, is to look through that first layer and try to find areas that are less sufficiently priced.

And, you know, I've mentioned some of those on the left-hand side here in areas that we think helps navigate that risk.

You know, this is really nuance, but, you know, things like sector specialization. I used a consumer fund earlier as an example, but managers who do one thing and do one thing very, very well to us are better positioned than managers who do a little of everything and try to cover the whole market.

So we believe investors are better served by diversifying at the plan level across different sectors and managers, but owning much more concentrated risks on a manger-by-manager basis and owning the diversity of the plan level, because those individual managers by and large do better than the general market.

So that's one theme that we've been pursuing. The data suggests that this is at least historically correct, and it's something we've been pursuing.

Another sort of -- another way that we think investors get rewarded is by focusing on different sizes of the market. So we tend to break up buyout into large-cap buyout, mid-cap buyout and small-cap buyout.

And small-cap buyout funds tend to out perform. Those market are less sufficient. They're less served by capital. There's more businesses to choose from, and there's more opportunity to have a negotiated transaction with a seller. All that is really good for the potential buyer and for the investors.

So, historically, small buyout funds have outperformed large buyout funds, and we don't see anything necessarily to change that dynamic going forward.

So that's another area where we shade our research, shade our investment activity to try to capture some of those premium returns.

You know, another nuance is just -- I mentioned managers do one thing and do it very well. We also like managers who, you know, we get their attention on every single deal.

So not trying to own 50 or 100 companies at a time, but maybe own ten at a time and really be an active owner of those investments and really be involved in the board in setting the strategy and being hands-on and proactive with the business.

So we look for very concentrated ownership structures where we believe we're getting the attention, the full attention, of the manager on every single deal because every single deal matters to the net performance. So that's another.

There's historical data, academic data, that says -- that backs this up, which is, the more deals a manager does, the performance begins to degrade. So we're really looking for concentrated ownership inside the funds as well.

MR. KEANE: All right. Anything else, Dan, right quick?

MR. HOLMES: No more reporting. I believe we'll take this under advisement and have further discussions about how to proceed with private equity.

MR. KEANE: Mr. Chairman, if it please the Trustees, we'll move on to the next part of the agenda and try to wrap it up here and get you-all out of here.

Under New Business, we have an amendment to the Silchester Group Trust Agreement. They have amended their agreement based on a new IRS filing.

The changes do not impact their investment philosophy, implementation or approach, investment guidelines, notification requirements or fees paid. It's merely an administrative change they've made.

And we move that the Board authorize us to send a letter telling them we accept it.

CHAIRMAN SCHMITT: Do we need a motion?

MR. KEANE: Need a motion.

MR. TUTEN: I'll make a motion.

MR. GLOVER: Second.

CHAIRMAN SCHMITT: Any discussion?

(No responses.)

CHAIRMAN SCHMITT: All in favor?

(Responses of "aye.")

MR. KEANE: All right. The next item, Mr. Chairman and Trustees, is the resolution for adding Devin Carter to the authorized signatures to our internal banking account that's over at the Center State Bank.

MR. TUTEN: Need a motion?

MR. KEANE: Yes.

MR. TUTEN: I'll make a motion.

MR. GLOVER: Second.

CHAIRMAN SCHMITT: Discussion?

(No responses.)

CHAIRMAN SCHMITT: All in favor?

(Responses of "aye.")

MR. KEANE: We have on the agenda, medical reports discussion for new hirees. We'd like to defer that, Mr. Chairman and Trustees.

CHAIRMAN SCHMITT: Show that as deferred.

MR. KEANE: And the next item is an amendment to the procedures manual on our uniform policy.

One of the things Kevin was working on before he left was he believes that we should have a written policy about people that wear the shirts to prevent the IRS from saying it's a taxable thing if you wear a police and fire pension shirt.

It says, wear it when you come to work here. We're talking about our employees rather than we're giving people clothes. That becomes a taxable thing.

So that's an amendment to our Policy 15, Subsection D. And that's going to take a motion.

MR. TUTEN: I make a motion.

MR. GLOVER: I second.

CHAIRMAN SCHMITT: Discussion?

(No responses.)

CHAIRMAN SCHMITT: All in favor?

(Responses of "aye.")

MR. KEANE: And the last item we have here this morning is the -- we want to notify you that we had the city's new antiharassment policy. It's been distributed to all the staff members.

And our final item we have is the Action List showing what's pending. We've removed items that have been completed. We're waiting for the Court to rule in some.

Show that received as information, Mr. Chairman?

CHAIRMAN SCHMITT: Received as information.

MR. KEANE: We're still working on our special project for records retention, and it's been pushed over onto the deferred list for most of this month because we've been gathering the records requested by the forensic auditor that the City Council hired.

And it's taken a substantial amount of time and effort on -- virtually every staff member has been involved in it. We've got everything located that he's asked for that we have.

Some of the records, they went back to 1987 that we no longer have. The office has moved five times since then.

But we'll have an update on our records retention policy for the September meeting.

And that, Mr. Chairman and Trustees, concludes the agenda. But Mr. Gassett would like to address the Board for just a moment on an investment policy, if that's permissible.

CHAIRMAN SCHMITT: Mr. Gassett.

MR. GASSETT: Thank you very much for the deviation.

And I want to first of all announce how very glad I'm glad to hear and announce to you that that yolk that has restrained your production performance, investment performance, has been lifted, because you have no longer have a requirement to have any amount of money in the fixed income group.

And I would suggest that had you not had a fixed income requirement going back as far back as it was, you probably wouldn't be down $1.6 billion.

But the first page is ten-year treasury yield, if you'll look at that real quickly.

Don't get ahead of me, guys.

And if you would, right at the top of that page, 10 percent equals 7 percent. And what that's telling you is have a requirement to make 7 percent a year compounded on your return for the investment.

In the fixed income group, it takes a 10 percent simple yield to equal that 7 percent. So anything on a fixed income that offers less than 10 percent, please shy away. It drags down your earnings.

Now, the second thing to do with this chart is, guess which way the bond rate is going to go? Up.

And what this chart also tells you that since 1995, you should not have been in the bond market at all, but because it was a requirement, you had to do so.

If you go to the next page, the page that has page number 2 on my markings there, you'll see this chart here. And this is kind of addressing what's in the back of a lot of investors and professional money managers' minds, in that there will be a liquidity crisis.

And what you're seeing here is that the

inventory owned by individuals has gone up as in pension funds, and what the dealers own has gone down.

This suggests an oncoming crash. In other words, you won't be able to get out of your bonds should we approach that state.

The other thing it suggests is that any bonds that you're buying now will be worth less over the next three to four to five years.

If you turn to the next page, which is page 4 -- I'm sorry, your Summit -- and I had to use the June data. If you'll notice there that the bond fixed income has averaged a 4 percent for 10 years and a 3.4 for a five-year average.

That has drained your success. As a matter of fact, not only bonds have been losers, but they've been big losers.

So, please, please, please, when people get back to you in the future, ignore any recommendations for fixed income. They will only drag you down.

Now, what we did was -- I show the very next page. It looks like a draft page, and it is. This is the page called -- when I walked out and the secretary gave me the folder last night, she put in the wrong page, and I sat up last night and this morning and redid it.

But what we tried to do to show you what this means is there's a ten-year reset going back to the June data returns, and we recalculated and said, Okay, supposed you didn't do any fixed income and reallocated into the international equity and the real estate, how would you have performed?

Well, instead of having $395.5 million, you would have had 519.578 million. Well, okay. That's the past. We can't do anything about it.

But today you're starting with 385.5 million as you look at your page there from the report from the same Flash Report.

Given the 7 percent average compound and growth rate return for the next 20 years, that will generate 1. almost $5 billion.

Compare that with what could have been done by the same 20-year period, it would have been almost $2.2 billion.

So now you're going to see the damage of being in the fixed end has caused you ever since rates got down below 10 percent.

Now, we did -- you guys did make a

contribution on your part, I think, of $74 million. If you add that 2.86 into it (inaudible) equates to over the next 20 years, that comes up to 268.4 million.

Bottom line is that we compared that and starting with -- I'm sorry. The 385 million plus the 286- growth comes out to $1.8 billion generated.

If you stay in the bond market at 6 percent, and that's a very luxurious rate, which is about 4 and simple, it will only generate about 1.8 billion, or a difference of $912 million.

So for the extra cost an little effort on your part, please, please, please, stay out of bonds.

Any questions on that?

One other thing. Oh, this last page, I don't have time to go into, but I would like to subject one thing to you. Please don't worry about being down -- how much, 1 percent, Dan?

Are you down 1 percent?

MR. HOLMES: About 1, 1 1/2 percent.

MR. GASSETT: And what was the equity index down?

MR. HOLMES: Don't have it.

MR. GASSETT: Okay.

If you could equal that equity index or better, you'll be in the top 20 percent of all investors. You're not in a race to try to be Number 1 to cross the goal line, you know. Your objective is just to make 7 1/2 percent gross. Make your life simpler if you can.

Thank you very much for your time.

CHAIRMAN SCHMITT: Thank you.

MR. KEANE: Thank you.

Mr. Chairman and Trustees, that concludes our agenda for today.

MR. KLAUSNER: Except for the closed session.

MR. KEANE: Yes. We're going to have the closed session with the attorney.

CHAIRMAN SCHMITT: All right. We will recess this meeting.

(The meeting recessed at 12:05 p.m.)

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CERTIFICATE OF REPORTER

I, Denice C. Taylor, Florida Professional Reporter, Notary Public, State of Florida at Large, the undersigned authority, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings, and that the transcript, pages 3 through 150, is a true and correct computer-aided transcription of my stenographic notes taken at the time and place indicated herein.

DATED this 24th day of September, 2015.

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

My Commission No. FF 184340
Expires: December 23, 2018