

JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: October 21, 2016
TIME: 9:04 to 10:47 a.m.
PLACE: Jacksonville Police and Fire Pension Fund
One West Adams Street
Suite 100
Jacksonville, Florida 32202

BOARD MEMBERS PRESENT:

Richard Tuten, III, Board Chairman
Richard Patsy, Secretary
Willard Payne, Trustee
Chris Brown, Trustee

STAFF PRESENT:

Timothy Johnson, Executive Director,
Plan Administrator
Debbie Manning, Executive Assistant
Beth McCague, Consultant
Devin Carter, Chief Financial Officer
Paul Daragjati, Board Counsel
Dan Holmes, Summit Strategies Group (via
teleconference)

CITY REPRESENTATIVES PRESENT:

Joey Greive, City Fund Treasurer
Steve Durden, Office of General Counsel
Anna Brosche, City Council Liaison

GUEST:

Brian Smith, FIAC Chairman

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

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1 BOARD MEETING

2 October 21, 2016

9:04 a.m.

3 - - -

4 CHAIRMAN TUTEN: Call the meeting to order.
5 Mr. Director.

6 DIRECTOR JOHNSON: Good morning, everyone.

7 I wanted to make mention that we're honored
8 to have the chairman of the FIAC here. You all
9 know Brian Smith.

10 Good morning, Brian.

11 MR. SMITH: Good morning.

12 DIRECTOR JOHNSON: All right. The meeting
13 has been called to order. If you'll open your
14 board book, you'll see the agenda. I'm on page
15 2. And there is a moment of silence that needs
16 to be observed for the following deceased
17 members: Charles Joyeusaz, who is a retired
18 police officer; William G. Dearborn, also retired
19 police officer; Richard A. Caldwell, an active
20 police officer; George R. Blackwell, retired fire
21 lieutenant; and Vernon M. Evans, retired police
22 officer.

23 (Pause)

24 DIRECTOR JOHNSON: Thank you.

25 Item III on the agenda is public speaking.

1 Is there anyone in the audience who would
2 like to speak to the Board this morning?

3 CHAIRMAN TUTEN: We have Mr. Bill Gassett.

4 DIRECTOR JOHNSON: We're familiar with Bill.
5 Come on over here, Bill. Yeah, I want to do it
6 over here so everybody can see you.

7 Bill and I have been fast friends. Bill has
8 been to my office since the last meeting and we
9 had a great conversation yesterday afternoon.

10 MR. GASSETT: My name is Bill Gassett,
11 Jacksonville, Florida.

12 I speak to you because last month at this
13 time, standing over there, I made a statement
14 that from an investment standpoint, we need to
15 look at things from the Armageddon standpoint,
16 and I threw out some numbers, and I didn't want
17 it to leave a bad taste in your mouth that I was
18 giving a rant or a rave.

19 And so what I did, I did some number
20 crunching back here, and you have the thing in
21 front of you. And what we first determined was
22 that the -- you've been using 7 percent as your
23 approach to how to justify investments, et
24 cetera, et cetera.

25 But in our study going back the last -- up

1 to 25 years on an average weighted annual basis,
2 you only come in about 6.2. What that means is
3 if on the 7 percent, if you had held to that,
4 yes, the fund would have run out of money in 12
5 years.

6 Now, I appreciate the fact that whenever we
7 added this kind of stuff, but you're only as good
8 as the knowledge you have at the time using the
9 published data, the actuary report from fiscal
10 '15 as well as the CAFR report that was put out
11 too.

12 If you -- what that means is if you're at 6
13 percent, you would be running out of money in 11
14 years. Even if you raised it to 9 percent, you
15 would run out in 14 years. So use the age 82 as
16 the new number for actuarial life expectancy.

17 Now, I want to say something irrespective of
18 how much money we save using that. These
19 percents can be used whether you are funded or
20 not. And what's critical here is the fact that
21 you've only averaged 6 percent when you've been
22 running your thing against 7.

23 I will also tell you that the 9 percent, we
24 did a side-by-side analysis and found out in a
25 simpler investment strategy, that that kind of

1 return, going back to the comparable 21 years,
2 would give you a 9 percent analyzed net rate of
3 return.

4 What the implications of all this is, if you
5 continue with a bad strategy of 6 percent you'll
6 need to drop in, Counselor -- sorry, Lady
7 Councilwoman, an additional 500 million bucks to
8 get you through the 17 years.

9 And if you look at the fourth page, I think,
10 of our handout, you will see we made a mistake
11 there -- yeah, fourth year, fourth page, it
12 should be 17 years is how long the applicable
13 approach. You know, it's what you're going to
14 have to be committing to it just to make sure
15 that you make it -- again, to repeat myself -- if
16 you do the current investment strategy.

17 One thing that's got us a little bit
18 concerned also is that given the current rate of
19 strategy, you've actually lost money for over 15
20 of the last 21 years. You cannot sustain that
21 kind of investment results and not go to the City
22 Council and taxpayer and say, hey, drop in a
23 couple hundred million bucks every couple years.

24 Let me leave as a closing point, if I may.
25 When you get the September numbers, as of

1 September 30, our side-by-side readily available
2 to the American public investment strategy is
3 14.3 percent net. Underscore the word net.

4 So when Dan comes -- I guess, what, does he
5 have anything to give you today, Mr. Chairman?

6 CHAIRMAN TUTEN: I have not looked. I don't
7 think he has a --

8 DIRECTOR JOHNSON: Dan's report is contained
9 in the Board book.

10 CHAIRMAN TUTEN: Yeah, okay.

11 MR. GASSETT: My bottom line is look at the
12 net number, not the gross.

13 So, again, the whole thrust here is, please
14 make a change in the investment strategy. I know
15 you've been given some kind of allocation
16 requirement, but typical confused allocation with
17 diversification. They aren't the same animal.
18 They can be overlapping. You do much better on
19 the diversified report.

20 Two things we determined. I said this the
21 first time I met before you back September three
22 years ago, what are you doing in bonds?

23 Another thing I want to say to you from our
24 report, and challenge on this, is that you never
25 should have been in international stocks.

1 International stocks have not given sustained
2 requirement that you folks need on a
3 year-end/year-out basis.

4 With that, I'll be glad to answer a quick
5 question. If not, I'll be glad to say thank you
6 very much.

7 I will be back next month. I know you'll be
8 sitting on the edge of your chairs, and I will
9 make a presentation on cash management, because
10 it's really three parts here: Investment
11 strategy, cash management strategy, and
12 government strategy.

13 Thank you very much.

14 DIRECTOR JOHNSON: Thank you, Bill.

15 CHAIRMAN TUTEN: Thank you, Bill.

16 We don't have any more speakers, I don't
17 think. Do we? No. Okay.

18 DIRECTOR JOHNSON: Is there anyone else who
19 has a statement to make?

20 (No response.)

21 DIRECTOR JOHNSON: So Debbie just reminded
22 me that we did not pledge our allegiance to the
23 US. I didn't see it on the agenda, so I
24 apologize. We should do that. We should stand
25 and pledge allegiance to the flag.

1 I pledge allegiance to the flag of the
2 United States of America, and to the Republic for
3 which it stands, one nation, under God,
4 indivisible, with liberty and justice for all.

5 Thank you.

6 Item IV on the agenda is the Consent Agenda.
7 You'll see that it includes a copy of a meeting
8 transcript from our last meeting, October 12.

9 Disbursements, which are also copied behind
10 your disbursement tab in your book, that includes
11 both accounts as well as disbursements related to
12 benefits.

13 Also, all benefit applications and DROP
14 participation, survivor benefits, time
15 connections, have all been reviewed by the
16 advisory board at its October meeting.

17 So, Mr. Chair, we need a motion to accept
18 the Consent Agenda.

19 CHAIRMAN TUTEN: I got a quick question for
20 you, Mr. Director. Application for Vested
21 Retirement here on page 4, down at the bottom.
22 Vesting 2024. Are these two police officers,
23 were they -- did they leave to go to another
24 department, or did they leave or do we know the
25 circumstances behind why?

1 DIRECTOR JOHNSON: I don't know.

2 CHAIRMAN TUTEN: Does anybody know?

3 DIRECTOR JOHNSON: Debbie, do you know the
4 circumstances?

5 MS. MANNING: I do not know. Do you want me
6 to check with Chuck?

7 DIRECTOR JOHNSON: We can find out the
8 circumstances.

9 CHAIRMAN TUTEN: Well, no. I was just
10 curious to see if they left to go to another
11 department, is what I was looking for.

12 MR. BROWN: Selzer did not, I can say
13 definitively. I don't know about the other one.

14 CHAIRMAN TUTEN: Okay. Gotcha.

15 DIRECTOR JOHNSON: Your point is Selzer did
16 not leave to go to another department?

17 MR. BROWN: Correct.

18 DIRECTOR JOHNSON: I got it. Yes.

19 MS. BROSCHE: And I have a question as well.
20 On page 3, underneath the table it says, "All
21 calculations and dollar amounts have been audited
22 in accordance with accepted procedures."

23 What does that mean?

24 MS. MANNING: Devin, we have a question from
25 Ms. Brosche.

1 DIRECTOR JOHNSON: It's on page 3 of the
2 agenda, Devin. If you don't have it, I'll show
3 me on mine.

4 MR. CARTER: About the payments?

5 MS. BROSCHE: What does it mean when it says
6 that everything's been audited in accordance
7 with --

8 MR. CARTER: It's been reviewed and
9 recalculated.

10 MS. BROSCHE: Been reviewed and
11 recalculated?

12 MR. CARTER: Uh-huh.

13 MS. BROSCHE: I think audited carries a
14 different meaning to different people and
15 indicates, you know, certain procedures done by
16 outsiders. So we might want to be more specific
17 than reviewed and recalculated.

18 DIRECTOR JOHNSON: So noted. We'll make
19 that change.

20 MS. McCAGUE: And just to note,
21 Mr. Director, just so you know, when our
22 auditors, external auditors, come in on an annual
23 basis, they do check not every -- they do samples
24 of all of these distributions that have been
25 made.

1 MS. BROSCHE: Yes.

2 DIRECTOR JOHNSON: Any other questions
3 related to the consent agenda?

4 CHAIRMAN TUTEN: Do I have a motion to
5 accept to from somebody?

6 MR. BROWN: I'll make a motion.

7 MR. PAYNE: Second.

8 CHAIRMAN TUTEN: We have a motion and a
9 second. Any questions, discussions?

10 (No responses.)

11 CHAIRMAN TUTEN: All in favor?

12 (Responses of "aye.")

13 CHAIRMAN TUTEN: All opposed?

14 (No responses.)

15 DIRECTOR JOHNSON: Motion carries. Thank
16 you.

17 So let's go to item V, and you'll this is
18 the Executive Director's Report. There's also a
19 tab headed Executive Director's Report. I will
20 be brief. I have another meeting this morning.
21 Bill Clinton is in town. He'll be at the library
22 this afternoon at 1:00, and he'd like a private
23 meeting and an update on the status of
24 Jacksonville Police and Fire.

25 That's a joke.

1 (Laughter)

2 MR. BROWN: I was laughing, but I didn't
3 know, you know . . .

4 DIRECTOR JOHNSON: I've never met the
5 president. But everybody wants to know what's
6 going on with Jacksonville Police and Fire. I
7 wouldn't be surprised.

8 MR. PAYNE: You did a good job.

9 DIRECTOR JOHNSON: All right. So you'll see
10 my report. It begins with the dashboard. The
11 dashboard, as you can see, is a work in progress.
12 So at this point we're at the end of the fiscal
13 year. You'll see that the top dashboard is a
14 summary of the benefit transactions that have
15 been performed by staff, things like payroll,
16 refunds, applications for new benefits,
17 reclamations.

18 Under that are retirement statistics. For
19 the prior month, that means that these statistics
20 are for the month ended September. As we move
21 into next month, you'll now begin to see this
22 thing develop. So you'll actually have the month
23 and statistics. And you'll also have cumulative
24 statistics.

25 So the Board will not only be able to see

1 what the staff has done in that month that just
2 preceded, but also through that month, including
3 every prior month. So this is coming together.
4 It's going to get stronger as we move forward.

5 You'll also see under the category of
6 Investments that we've taken action on the
7 liquidation recommendation that was made by the
8 Board last month.

9 And under the Budget, you'll see that we're
10 about 21 percent under budget at the end of
11 September. There obviously are some bills that
12 are outstanding. So next month we'll true that
13 up. You'll actually see a fiscal year-end budget
14 total, and you'll also see a total for the first
15 month of the new fiscal year. So we will have
16 two budget updates next month.

17 I always like to give you updates on my
18 activity in terms of the long-term goals I have
19 for the plan, which are Governance, Solvency,
20 Transparency, Education and Outreach. I'll just
21 highlight one or so items from each one of these
22 categories.

23 You'll see first a functional chart and an
24 Annual Cycle of Work diagram. This is the way --
25 if you take a look at this chart, you'll see the

1 way that I've structured my relationships with
2 various professional service providers, and just
3 so you know who I'm working with and how they
4 relate to the operation of the fund.

5 Next, there's a draft of the 2016-17 Annual
6 Cycle of Work. I'm not going to go into detail
7 with this other than to tell you that I've met
8 individually with staff, which is the
9 Administration column, the FIAC under Brian Smith
10 and also the advisory board so that have an
11 understanding of some of the priorities that are
12 going to be coming to those committees, the
13 timing of their work. It will eventually lead to
14 recommendations that will be made to this Board
15 for ratification.

16 One of those recommendation will be coming
17 from Brian later in the meeting related to
18 actuarial services.

19 So next, let me hit a couple of highlights.

20 Under Solvency, the chapter funds have been
21 received for 2016. They total \$10,680,624.05.
22 50 percent of that money goes to the city to
23 apply to its yearly pension contribution.

24 The remainder is distributed by this Board
25 as either, 1, holiday bonus; 2, share plan; or,

1 3, to pay down the unfunded liability.

2 You should note that in 2015 this Board
3 voted to allocate \$2 million to Option 1 and 3
4 million to Option 2.

5 The chairman has decided that we don't need
6 to move a vote on this item until next month. So
7 I'll get through the balance of my report. If
8 the chairman wants to call a motion in regard to
9 how to allocate \$5.3 million in funds for this
10 year, he can do that at his discretion.

11 Under Transparency, you'll see that I've
12 added public record requests to the dashboard.
13 So if you look at the prior page, you'll see that
14 there were nine requests made in September and
15 there were nine requests completed in September.
16 So you will see that highlight every month going
17 forward.

18 In terms of Education, I'm very proud to
19 tell you that we have our first scheduled DROP
20 retirement workshop on the 26th at 10 a.m. It's
21 here in this room, and we're at capacity crowd.
22 Our capacity is 40.

23 MR. BROWN: That's great.

24 DIRECTOR JOHNSON: They filled up that thing
25 quick, which shows you the demand that there is

1 out there for education about this pension fund.
2 Our members are desperate to learn more about how
3 to prepare for a secure retirement. We're going
4 to be doing that quarterly, and you're all
5 welcome to attend.

6 Under Outreach, under the opinion roundup, I
7 was interviewed by the editorial board at Florida
8 Times-Union, and a copy of that article is
9 attached to my report.

10 And then, finally, this building was secure
11 despite Hurricane Matthew. Staff came in on the
12 day before the storm hit. They removed all the
13 computers. They wrapped them in cellophane. All
14 of our member files were protected. They
15 sandbagged the entrances. Fortunately, there was
16 no damage to the building.

17 So that's the extent of my report. If
18 there's any questions, I'll entertain those now.

19 All right. Hearing none, Mr. Chairman --

20 MR. PATSY: Tim --

21 DIRECTOR JOHNSON: All right. Sorry.

22 MR. PATSY: -- I've got two questions on
23 this flow chart.

24 DIRECTOR JOHNSON: Yes, sir.

25 MR. PATSY: Okay. At the very bottom line,

1 you've got a lobbyist and a public relations.
2 Those are two functions that, to a certain
3 degree, we don't do right now.

4 DIRECTOR JOHNSON: Well, right now we do
5 have a lobbyist.

6 MR. PATSY: We do?

7 DIRECTOR JOHNSON: We do. The firm --

8 MR. PATSY: A fully paid lobbyist?

9 MS. McCAGUE: Yes.

10 DIRECTOR JOHNSON: Yes.

11 MR. PATSY: Outside entity?

12 DIRECTOR JOHNSON: Yes.

13 MR. PATSY: Who is that?

14 MS. McCAGUE: Governance Services.

15 DIRECTOR JOHNSON: It's Governance Services.
16 Correct. Correct.

17 MR. PATSY: And we have public relations as
18 well?

19 DIRECTOR JOHNSON: We don't.

20 MR. PATSY: Okay.

21 DIRECTOR JOHNSON: But it's part of my --
22 it's part of my long-term plan to improve our
23 image and our relations with the public. So I'll
24 be talking about that later on.

25 MR. PATSY: Okay.

1 CHAIRMAN TUTEN: The lobbyist had been used
2 mostly for Tallahassee-type issues over there
3 with the state legislature.

4 MR. PATSY: It just seems kind of -- I mean,
5 we are a governmental entity, but yet we're
6 hiring a lobbyist. To me, that's a bit of a
7 contradiction. It may have been a practice that
8 we've done for a long time --

9 DIRECTOR JOHNSON: I'll send you a copy of
10 the contract.

11 MR. PATSY: -- I don't know that, but
12 it's -- I don't know. Kind of rubs me the wrong
13 way.

14 DIRECTOR JOHNSON: Well, we'll talk about
15 it. I'll send you a copy of the contract. If
16 it's something the Board wants to act one, we can
17 do it at a future meeting.

18 MR. PATSY: Do we -- how much benefit do we
19 get from it and in what shape or form?

20 DIRECTOR JOHNSON: I can't tell you how much
21 benefit we've gotten in the last 11 weeks that
22 I've been here, but we can put it on a future
23 agenda and talk about it.

24 MR. PATSY: Yeah, that would be good
25 because, obviously, I need some education on it,

1 given the fact I didn't know we had one. Yeah,
2 that would be helpful.

3 And same thing, if we could put the public
4 relations on there so you can go into more depth
5 as far as what you're -- and, trust me, I get it.
6 I get it. You know, every entity, particularly
7 somebody like us, can use good public relations.

8 DIRECTOR JOHNSON: Yes. I'll tell you where
9 I'm going with that. I won't be engaging in
10 contracts that don't get approved by the Board.
11 So I don't want you to be surprised if that
12 contract exists, because it doesn't.

13 Also, in November I would like to suggest to
14 the Board that after my first 90 days on the job,
15 it might be good to designate a subcommittee of
16 the Board to look at my plan and to make sure
17 that I'm on the right track.

18 MR. PATSY: Sure.

19 DIRECTOR JOHNSON: So I'll be bringing that
20 recommendation to the Board in November. When I
21 do sit down with that subcommittee, if the Board
22 decides that's the way it wants to go, one of the
23 things I'll be talking about is branding and
24 public relations. All right?

25 MR. PATSY: All right. Good. Thank you.

1 MR. BROWN: Tim, this is fantastic to bring
2 all this together and actually be able to see it,
3 the 10,000-foot perspective of everything and how
4 it all plays in. Thank you for doing this.

5 Two quick questions.

6 DIRECTOR JOHNSON: Yes.

7 MR. BROWN: The October 26th workshop -- I
8 see there's several dates here. You've got the
9 October 26th workshop and you've got a couple of
10 dates in November. That 26th workshop, is that
11 for all members that are going into the DROP or
12 just anyone interested in it?

13 DIRECTOR JOHNSON: That's a great question.

14 So for the 26th, what we're trying to
15 capture are those people that have any interest
16 in the DROP program. So instead of just meeting
17 one-on-one with people that are going into a
18 class, they're about to enter the DROP, we've
19 expanded this to, really, anyone who has an
20 interest or a curiosity about the DROP.

21 So you could have ten years in the plan and
22 you're planning your retirement
23 security strategy, you might want to learn more
24 about that DROP right now. So I think that's
25 where the interest is, if the people are curious

1 about it and now they don't have to wait until
2 they're about to enter it.

3 MR. BROWN: And this PowerPoint
4 presentation, is this the one that's going to be
5 given?

6 DIRECTOR JOHNSON: This is the actual
7 PowerPoint.

8 MR. BROWN: And what are those dates in
9 November, the JFRD and JSO dates?

10 DIRECTOR JOHNSON: So we're also doing a new
11 member orientation.

12 MR. BROWN: Okay.

13 DIRECTOR JOHNSON: We think it's really
14 important that relationships with new members of
15 the plan, both police and fire, get established
16 when they're hired. That way they can learn the
17 details of the plan. If they have questions,
18 they know who to go to. And I think we can do a
19 better job of anticipating what they want to know
20 about and giving them that data.

21 So our plan is to not only do a new member
22 orientation, which we've just begun -- we did the
23 first one for the fire department this week, and
24 the one we're doing on the 26th is going to be
25 for police -- but we're also going to be doing a

1 vesting workshop so that when people get to the
2 point of their vest and at that point they're
3 entitled to new benefits, it will be another
4 opportunity for us to touch them and talk about
5 the benefits.

6 MR. BROWN: Great. Okay.

7 DIRECTOR JOHNSON: So that's what's going
8 on. Going forward, we're going to market it the
9 way we have been, which is on the website and
10 through the news letter. So that, again, new
11 members, vested members, or members that are
12 considering the DROP will all have an opportunity
13 to get good information.

14 MR. BROWN: Good. Thank you for that.

15 And the holiday bonus. I saw that it's on
16 the agenda for next month. So that's enough
17 time. We'll discuss it next month, vote on it,
18 and then it can be implemented in December.

19 I've just been asked a couple -- by a couple
20 members about that.

21 DIRECTOR JOHNSON: Truly at the discretion
22 of the Chair.

23 In my report, I was suggesting that now that
24 you have knowledge of it, which you have a month
25 to consider it, but you-all have been through

1 this before, and the Chair may want to ask for a
2 recommendation on it today instead. So we'll
3 see.

4 CHAIRMAN TUTEN: Well, yeah, I'm sure you've
5 gotten calls about it. It seems like firemen are
6 really adept at knowing when they're supposed to
7 get money.

8 (Laughter)

9 CHAIRMAN TUTEN: I think that's everybody in
10 general.

11 You know, usually what we do is just send
12 it -- make sure the actuary does a quick little
13 write-up, make sure everything is good, works,
14 which it will. We already know the dollar
15 amount. What we have to decide is basically how
16 do we want to split it up.

17 Do we want to do it like we did last year?

18 MR. BROWN: What was it last year?

19 CHAIRMAN TUTEN: I think 3 million went to
20 the share plan and 2 went to the retirees.

21 MR. BROWN: Okay.

22 CHAIRMAN TUTEN: Something like that. 3 to
23 2.

24 DIRECTOR JOHNSON: It's in the report.

25 MR. BROWN: Oh, okay. Sorry.

1 CHAIRMAN TUTEN: Yeah. I mean, it's up to
2 the Board. Really, the only thing we need to do
3 is make a motion to approve the amount as far as
4 the breakdown, approve that we sent it to the
5 actuary and make sure they do their study, and
6 then we give Tim and the office the permission
7 to, you know, write everybody a check and make
8 the deposits whenever we're supposed to make the
9 deposits for the share accounts.

10 DIRECTOR JOHNSON: So for the record, 2
11 million went to the holiday bonus, 3 million went
12 to the share plan. And we have about the same
13 this year. It's \$5,300,000.

14 MR. BROWN: Thank you.

15 CHAIRMAN TUTEN: So any calls to the Board,
16 do you want to get it rolling now or --

17 MR. BROWN: That would be -- I think it
18 would probably be better to go ahead and do it
19 now. Because of the interest that the members
20 are showing, might as well go ahead and start the
21 process and say -- you know, we can wait until
22 next month, but I don't see any reason to.

23 MR. PAYNE: The sooner the better.

24 CHAIRMAN TUTEN: Do you want to do it now?

25 MR. PATSY: Yeah. The sooner the better, I

1 think.

2 CHAIRMAN TUTEN: So the motion will be to
3 take the money we have that's available for the
4 enhancement and the share plan, run the numbers
5 by the actuary just to make sure everything is
6 good, and then once that's done, based on our
7 final decision on how we want it allocated, we'll
8 go ahead and give you guys permission to go ahead
9 and take care of it as far as sending out the
10 checks and all that.

11 Richard?

12 MR. PATSY: We're going to do this in
13 November, right?

14 CHAIRMAN TUTEN: Well, the checks, yeah.
15 Usually it would come out -- well, we could, but
16 it would be probably more prudent to do it now.
17 That way, make sure it gets done in time. I'm
18 not saying anything is bad or whatever, but it
19 still has to go to the actuary. We need them,
20 you know, to actually do their little thing.

21 It doesn't take long, but they still need to
22 make sure that the numbers work and all that.
23 Get it back from them, then -- what we're going
24 to do essentially is approve how much we're going
25 to allocate to the share plan versus the retiree

1 enhancement bonus.

2 And then once everything checks out
3 everywhere else, it comes back here, we start the
4 checks.

5 MR. PATSY: How much are we going to
6 recommend to pay down the unfunded liability?

7 CHAIRMAN TUTEN: Well, half of the --
8 usually we get about a little over \$10 million.
9 Half of that is already going to the city to pay
10 down the unfunded liability. That was part of
11 the deal, the pension reform.

12 MR. PATSY: We used to get the full 10
13 million?

14 CHAIRMAN TUTEN: Yes, sir. We used to get
15 the full 10, and that went into -- that used to
16 go into the Christmas bonus, and then the rest of
17 it we put into the -- basically a savings
18 account.

19 And when we made the reform deal, we gave
20 the city 80-something million bucks or whatever
21 out of that savings account. And then going
22 forward, half will go for the next ten years,
23 eight years. Half will go to the city to pay
24 down the unfunded, and then the other half comes
25 to the members, whether it's a retiree or current

1 members.

2 So in my humble opinion, we're already
3 giving half to the city to pay down the unfunded,
4 or whatever they choose to pay it with, the
5 pension lady. You know what I'm saying?

6 So I think the other half -- I don't think
7 it's unfair to give it to the members since they
8 were getting all of it before.

9 MR. PATSY: Okay.

10 CHAIRMAN TUTEN: Kind of a give-and-take
11 type thing with the whole situation. You know
12 what I'm saying, Rich?

13 MR. PATSY: I appreciate it.

14 CHAIRMAN TUTEN: I mean, whatever you think
15 we got to do with the money, that's what --

16 MR. PATSY: I wasn't aware of that. I
17 didn't -- you know --

18 CHAIRMAN TUTEN: I gotcha.

19 MR. PATSY: -- I wasn't here when we made
20 that decision last year, and it wasn't clear to
21 me. So I appreciate that.

22 CHAIRMAN TUTEN: Yes. So does anybody -- do
23 you want to stick with what we did last year, or
24 do you want to up it for one group, lower it for
25 another?

1 How do -- we used to do a 3 percent bonus
2 for retirees. And the biggest thing with that
3 was -- in my opinion, was always there's still
4 quite a considerable number of people out there,
5 they didn't retire with the DROP. They retired
6 in '82. They're making about 1,200 bucks a month
7 in pension benefits. This is a big deal to them.

8 Anybody that's retired in the last ten
9 years, this is not a big deal to them.

10 MR. PATSY: Right.

11 CHAIRMAN TUTEN: But according to the IRS,
12 you have to divide it up fairly and equally
13 between all the members.

14 MR. PATSY: I got it.

15 CHAIRMAN TUTEN: So there's no -- you know,
16 we can't help anybody out more than others. So
17 we have to decide on, you know, you've got the
18 current guys whose pension is obviously not as
19 good as mine is, you know, and the share plan
20 will help them out considerably down the road and
21 balance that out with, you know, the old folks.

22 MR. PATSY: I understand. I got it. I
23 understand.

24 CHAIRMAN TUTEN: So I think that's what we
25 came up with.

1 Do you want to do it the same way we did
2 last year?

3 MR. BROWN: I make a motion to do it the
4 same way we did last year.

5 MR. PATSY: I'll second.

6 CHAIRMAN TUTEN: We have a motion and a
7 second. Any more discussion?

8 (No responses.)

9 CHAIRMAN TUTEN: All in favor?

10 (Responses of "aye.")

11 CHAIRMAN TUTEN: All opposed?

12 (No responses.)

13 CHAIRMAN TUTEN: None.

14 DIRECTOR JOHNSON: All right. We will take
15 care of that.

16 CHAIRMAN TUTEN: Thank you, sir.

17 DIRECTOR JOHNSON: Thank you.

18 If there are no more questions about my
19 report, Beth, our consultant, is here. Her
20 report follows mine. So if you look right behind
21 my report, you will see the Consultant's Report
22 to the Board dated October 21, 2016, and I'll
23 turn it over to Beth.

24 MS. MCCAGUE: Thank you. I'll just give two
25 quick updates.

1 Number 1: I am working with Tim regarding
2 the direction he wants to go putting together a
3 plan that can restore confidence in the
4 operations of the fund at the member level, at
5 the city level, at the community level.

6 But the most urgent thing happening next
7 week is the last item, which was added to my list
8 of things to do before I left here, and that is
9 help arrange for the appointment of a new
10 external pension counsel.

11 That date for interviews is scheduled for
12 Tuesday. I hope everyone has that on their
13 schedule for -- come at 12:30, please, so we can
14 get started right at 1:00.

15 We'll have three attorneys presenting to us.
16 In your packet behind my comments, you will see a
17 summary of the three firms. You'll see the time
18 line that we're following in this selection
19 process.

20 But we have three great firms that we are
21 interviewing. We have -- we did a directed RFP,
22 if you remember, to those firms which we agreed
23 with Jason Gabriel at OGC would be -- have the
24 appropriate level of expertise.

25 We have their proposals in. They're all

1 very good. And we will look forward to
2 interviewing them and then having your decision
3 at the November meeting. And then we'll be
4 working with Jason to put the contract in place,
5 and our new attorneys should -- with pension
6 expertise will be in place December 1st.

7 DIRECTOR JOHNSON: Yes.

8 MS. BROSCHE: I have a question.

9 So there were four RFPs issued and these are
10 the three that responded?

11 MS. McCAGUE: Yes. The fourth one was
12 issued to the Klausner firm, although the
13 Klausner firm had told us back in March that when
14 their contract came due, that they would ask us
15 to find another attorney.

16 MS. BROSCHE: Got it.

17 MS. McCAGUE: So our policy is always that
18 we include an RFP to a long-term vendor who has
19 been working with us. So we included the
20 Klausner firm.

21 Klausner did respond, saying they would not
22 be bidding on the general business. They would
23 stay available to offer special pension advice
24 when called on, and they also restated that they
25 would continue to handle securities litigation

1 for us if we chose to do that. In return, they
2 would provide us with 50 fee hours of legal
3 services a month, which we could take in any
4 number of ways.

5 So securities litigation was not part of our
6 RFP to these three firms. So we only have three
7 firms presenting.

8 MS. BROSCHE: Okay. Thank you.

9 MS. McCAGUE: Is that clear?

10 MS. BROSCHE: Uh-huh.

11 DIRECTOR JOHNSON: You were kind enough to
12 put this on my desk last night. We haven't had a
13 chance to talk about it.

14 Is it your plan that we would have this
15 ready and emailed to the Board members before the
16 interviews, or would they receive this after the
17 interviews?

18 MS. McCAGUE: Tim has begun packages, as you
19 know, in preparing everybody for the work that
20 they were going to do. And so what he is holding
21 is, is a document which contains what you're
22 looking at in this package.

23 The last couple of pages in this package,
24 the time line, the summary of the three firms,
25 and also a list of proposed questions and an

1 evaluation matrix that you would use.

2 And, yes, what we're going to do is have
3 this for you in book form when you come in on
4 Tuesday, and we will get this to you, if you
5 would like it, electronically. We can get that
6 to you today so you could be reviewing it over
7 the weekend.

8 Also, if anyone would like to see the full
9 proposals, I will be glad to get that to you.
10 They're each, you know, six or eight or ten
11 pages. Mostly what they contain is the
12 background and everything that the attorneys have
13 done and the résumé, including whether or not
14 they were on moot court when they were in law
15 school. But I'll be happy to get that to you if
16 you would like.

17 MS. BROSCHE: I would like that, please.

18 DIRECTOR JOHNSON: So we're going to do it
19 for everyone. So today you'll get all the things
20 that Beth mentioned, along with electronic copies
21 of the -- their initial submission.

22 MS. McCAGUE: And that's my report.

23 DIRECTOR JOHNSON: That's your report.

24 Excellent. All right.

25 If there's no other questions about the

1 consultant's report, we'll turn it over to our
2 first counsel report. Our internal counsel is
3 Steve Durden. I believe I saw Steve this
4 morning.

5 Hello, Steve. Come on up. Tell us what's
6 going on.

7 MR. DURDEN: Actually, I don't know that we
8 spoke about this beforehand. Stephen Durden
9 here.

10 So I'm not sure -- other than the litigation
11 which has begun, you got a letter that I believe
12 has been sent now to Mr. Sheppard, representing
13 Mr. Keane and the other couple that -- you can
14 read the letter.

15 It's just briefly, Sheppard sent a letter to
16 Tim, directed at him, saying, pay us our money or
17 we're going to sue you and ask for damages and
18 attorney's fees and triple damages, or something
19 like that.

20 So we responded, basically saying, you're
21 not entitled to win and we'll talk to you later.
22 I've forgotten the exact language, but it's
23 fairly -- fairly generic, kind of return letter
24 to someone who files a threat to the city. I
25 don't know that there was anything else.

1 I've gotten a few reports regarding a couple
2 of things, but I don't think there's anything
3 else that you wanted to talk to me about unless
4 that was --

5 DIRECTOR JOHNSON: No. There's a copy of
6 the letter in the Board books.

7 MR. DURDEN: Yes.

8 DIRECTOR JOHNSON: So the Board has had a
9 chance to see that.

10 MR. DURDEN: It's a very brief, no, you're
11 not going to win, but we'll talk to you. I think
12 that's a fair way of putting it.

13 DIRECTOR JOHNSON: Does anyone have any
14 questions for Stephen?

15 CHAIRMAN TUTEN: Yeah, I've got a question
16 for Steve. I've read the letter.

17 Has there been a lawsuit filed yet?

18 MR. DURDEN: No, sir, not as far as I'm
19 aware. I would probably be aware of it, but I
20 don't think. No.

21 CHAIRMAN TUTEN: I've never been deposed
22 before or to make a statement. So I'm curious.
23 If we get deposed by the attorney for the other
24 group, do we bring, like, you with us when we
25 make sworn affidavit statements, or how does that

1 work?

2 MR. DURDEN: Yes. Okay. The way it works,
3 civil cases go, there are often depositions. And
4 we don't know for sure whether there would be a
5 deposition in this case. If the Board members
6 were called, I have a feeling one of the first
7 things we'd look at is whether we believe that
8 Board members should be allowed to testify at
9 all.

10 But assuming that there was a deposition,
11 Mr. Sheppard, or whoever he chooses, would come
12 to a room like this, some sort of conference
13 room. The plaintiffs may or may not be there.
14 They don't have to be there, but they can be
15 there.

16 The lawyer for the plaintiff, or who is
17 calling the deposition, whoever that may be, will
18 ask questions. For the most part, the questions
19 are pretty much things that -- you pretty much
20 answer almost any question asked.

21 There's -- because -- because depositions
22 are not necessarily geared to finding evidence
23 that is actually admissible in court, but may
24 lead to evidence admissible in court, so there's
25 a broader range of questions.

1 But there will be a lawyer for you, for the
2 Board, to say -- if there's an objection that's
3 necessary, any question that you would have at
4 any time, a client would be recommended to say,
5 I'm not sure I understand the question; I want to
6 talk to my lawyer, all those sorts of things.

7 It's -- most of them, they can be very
8 contentious or they can be very polite. And that
9 just depends on the personalities involved of the
10 lawyers.

11 I mean, our lawyers know the Sheppard
12 lawyers quite well. I don't have any reason why
13 it would be contentious in the sense of personal
14 animosity with the lawyers, which sometimes
15 happens. So it would be a very -- it would be a
16 casual but stressful question-and-answer session.

17 And then after Mr. Sheppard, or whoever he
18 has, asks -- were to ask questions, whoever was
19 representing the Board would be able to ask their
20 questions in response to sort of clarify
21 something you may have said.

22 You know, you've said that the sky is green,
23 and they clarify it by saying, well, you know, I
24 meant by that at sunset on a specific day, there
25 is this what's called a green flash for sunset.

1 So you weren't really saying the sky is always
2 green.

3 In other words, you -- your lawyer helps
4 clarify -- may help you clarify the answer. Some
5 depositions last an hour. Some depositions last
6 days. So that, I can't tell you. There's no
7 predicting that kind of stuff. There's a
8 possibility.

9 I would expect that if any Board member were
10 called for a deposition, while I don't know this
11 for sure, it would not be uncommon for the
12 lawyers to say, why is it that you need to call
13 the Board members? We want to prove that they
14 were on the Board, in which case the lawyers may
15 say, look, we'll stipulate they were on the
16 Board. Or something like that.

17 In other words, sometimes depositions are
18 avoided because the lawyers can agree on whatever
19 information the deponent would have.

20 CHAIRMAN TUTEN: Is it too early for me to
21 declare the Fifth, or do I have to wait until I
22 get there?

23 (Laughter)

24 CHAIRMAN TUTEN: Well, was anyone else on
25 the Board at that time?

1 MR. DURDEN: Anyway, does that help? And if
2 you'd like to talk to me more about it later --

3 CHAIRMAN TUTEN: I was just curious. I look
4 forward to it.

5 (Laughter)

6 DIRECTOR JOHNSON: All right. Stephen,
7 thanks.

8 MR. BROWN: Always appreciate your
9 explanation, Steve.

10 DIRECTOR JOHNSON: All right.

11 Paul Daragjati is also here. His written
12 report is contained in your Board book. And he
13 might have some highlights or want to entertain
14 some questions.

15 MR. DARAGJATI: Sure. Just to remind the
16 Board, pursuant to the Wyse settlement, we have
17 to submit an annual status report to the federal
18 district court each year. We did that this past
19 month. A copy of the report is in your binder.

20 And, basically, it just says that everyone
21 is following the terms of the settlement
22 agreement, and nothing new to report on that.

23 The court accepted it and hasn't issued an
24 order. Probably will not, other than just
25 stating that the court is aware that the report

1 was issued.

2 In regards to securities litigation and any
3 matters that I was assigned to work on since the
4 last meeting, I assisted your chief financial
5 officer in completing the Valuation Support
6 Services Agreement. That was resolved and
7 submitted.

8 In terms of securities litigation, NII has
9 been settled. You already knew that from last
10 month, but the court granted final approval on
11 that one. A settlement was issued as far as the
12 order, and the securities litigation firm is
13 working with Devin right now to fill out the
14 proper documents so that Jacksonville gets its
15 share of the settlement.

16 Just to -- I do want to also put this out
17 there in the public sphere because there's always
18 a lot of talk about the settlements in these
19 things.

20 In this particular issue, the court
21 recognized that there were 39,000 hours of
22 attorney hours involved in this particular case
23 amongst all the plaintiffs' counsel and set a fee
24 of \$19.2 million, yet the court cut that fee in
25 half. The court has every right to do so.

1 So I just want to make sure that that's out
2 in the public, that it's not a windfall for the
3 attorneys in these cases, that they do put in a
4 lot of work and they don't always get paid as
5 much as they want for them.

6 MR. PATSY: Wait a minute, Paul. So the
7 legal -- the law firms that are involved are
8 going to get 19.2 million?

9 MR. DARAGJATI: No. 10. The court cut it
10 in half.

11 MR. PATSY: Okay.

12 MR. DARAGJATI: And that's five different
13 firms that are splitting that.

14 MR. PATSY: And the class members, the
15 pension funds involved are going to get how much?

16 MR. DARAGJATI: Approximately 30 million.

17 MR. PATSY: Divided among how many?

18 MR. DARAGJATI: I don't know the answer to
19 that.

20 MR. PATSY: So you don't have a guesstimate
21 of what Jacksonville Police and Fire --

22 MR. DARAGJATI: I do not. We can work --
23 see, it all depends on how many of the class
24 members are actually going to apply for that
25 fund.

1 MR. PATSY: See, I got a problem with law
2 firms -- no question you probably earn your
3 money. But each law firm is going to get roughly
4 \$2 million. If you take five firms and divide
5 it. Okay. That's a lot of money per law firm.

6 Where, what I saw from what Jacksonville
7 gets, every time we're a class action member,
8 it's -- it's thousands of dollars.

9 MR. DARAGJATI: Uh-huh.

10 MR. PATSY: So are we doing this to benefit
11 our plan participants, given the payout that
12 we're getting, or are we doing this strictly to
13 benefit the law firms that represent us?

14 MR. DARAGJATI: Sure.

15 MR. PATSY: And that's -- that's -- I got a
16 problem with that.

17 MR. DARAGJATI: And that's the philosophical
18 debate around these types of cases.

19 The response, the generic, general response,
20 is that the law firms that bring these cases take
21 all the risks, all of the risks.

22 You took a loss by owning this stock to your
23 detriment because you were given false
24 information in purchasing that stock. The stock
25 took a dive.

1 The law firm took all of the risks in
2 bringing that case, all of the costs involved in
3 it, because if the case gets dismissed by the
4 court, they take all that loss. And in the
5 end --

6 MR. PATSY: Yeah, but you wouldn't have a
7 case if you didn't have the class action members.
8 So I get that. I understand that, and to a
9 certain degree -- when I look at some of these
10 cases, particularly the Men's Warehouse case, I
11 got a problem with them. So I don't mind suing
12 them, okay? Because I got a problem with them.

13 (Laughter)

14 MR. PATSY: But some of these other ones,
15 like they're good -- they're companies. They're
16 going concerns. And in some instances we still
17 own the stock.

18 So, you know, as owners, we're talking money
19 out of our pocket, dividing it up amongst all our
20 class action, plus our law firms, and in essence
21 we're taking money out of our own pocket and @
22 recompensating everybody else involved in the
23 deal.

24 I've got a problem with that.

25 MR. DARAGJATI: As an owner of the firm, if

1 your accountant or your CFO or your director lied
2 to you about a cost or about some function of the
3 firm, and you relied on their advice to take a
4 business decision, what would you do when you
5 found out they lied to you? You'd fire them.
6 You might sue them. And that's basically what
7 you're doing here.

8 MR. PATSY: I'd sell the stock.

9 MR. DARAGJATI: But that's basically what
10 you're doing here.

11 MR. PATSY: But the payout is so small for
12 us, you know? I just -- I saw the number from
13 previous cases.

14 MR. DARAGJATI: Right. When you look at --
15 individually, as an individual member of a class,
16 but as the class as a whole, the payout is much
17 larger than what the attorneys get.

18 MR. PATSY: I've still got a problem with
19 it.

20 CHAIRMAN TUTEN: I understand what you're
21 saying, Richard. We had a former trustee that
22 took your position quite often in these cases.

23 I think some of this has to be looked at
24 from our perspective. It doesn't cost us
25 anything to get that money back.

1 Now, I understand what you're saying, and I
2 think it's more in the realm of, you know, law
3 firm out there doing what they're doing, trying
4 to -- you know, maybe some of these cases aren't
5 exactly worthy of doing what other -- ambulance
6 chasing is what you're thinking. I understand.

7 But at the same time you have to look at the
8 deterrent. How much of a deterrent is it in the
9 future for some of these people? Maybe, maybe
10 not. But these people -- you know, even if we
11 still own their stock, the problem is, you lied,
12 you cheated, whatever you did, regardless --

13 MR. PATSY: Then they ought to be out of
14 business. We ought to -- we ought to -- I mean,
15 we're going in, we say, okay, we'll settle on
16 this one. Like the ambulance chasers, they find
17 out what the minimum your policy covers and they
18 go for that. In most instances, \$50,000 and
19 they're happy, if they can get it, and they go
20 away.

21 And that's almost what we're doing here with
22 securities litigation. We're not -- if a firm
23 really needs to go out of business, we're not
24 pursuing that. We're finding some lower amount
25 that will make all parties happy. And that's --

1 CHAIRMAN TUTEN: I agree. But at the end of
2 the day, you've got to get back to what we do as
3 far as -- you know, even if it's -- say our
4 payout amount is 50 grand. Well, that's still 50
5 grand more than we had. It didn't cost us
6 anything to get it. And, you know, in today's
7 world where every budget, every dime is being
8 scrutinized here at the pension fund --

9 MR. PATSY: But that \$50,000 is a small
10 portion of the 30 million that was part of the
11 settlement, and that 30 million is real dollars
12 to the company.

13 And in many instances, as I see it, the
14 issues are not that large as far as whether the
15 company should be out of business. It's -- you
16 know --

17 MR. BROWN: What about the notion of it
18 being -- I understand it. In some cases it isn't
19 as significant as in others. But, I mean, that
20 could be a large way to justify such suits.

21 CHAIRMAN TUTEN: At some point too, when you
22 look at this, there's one, two, three -- three --
23 we have how many cases out right now, Paul,
24 three?

25 MR. DARAGJATI: I believe -- well, NII is

1 done now. Other than NII, we have three,
2 correct.

3 CHAIRMAN TUTEN: How many would you say can
4 you remember we've had, say, in the last ten
5 years? Do you know, Beth?

6 MS. McCAGUE: Yes. We had to produce a
7 great deal of information for a special
8 subcommittee of the finance committee which
9 Councilmember Brosche chaired. And I believe the
10 number was five, including NII and Tower
11 Insurance.

12 And you're right. The payments come in
13 dribbles over years. You just don't get a check,
14 even though the case has settled.

15 CHAIRMAN TUTEN: Right.

16 MS. McCAGUE: They come in small increments
17 over years. And the average, if I remember, that
18 we got on those cases over time was maybe
19 \$23,000.

20 CHAIRMAN TUTEN: Yeah. So it's -- like I
21 said, our former trustee, I won't name her, but
22 she was the same way, like it was almost a waste
23 of time to do it, in other words.

24 But at the end of the day, it doesn't cost
25 us anything. And maybe, who knows? Maybe one

1 day we may get somebody that really needs to get
2 caught. You know, that's my fear, is somebody --
3 I don't like the fact that these people think
4 they can do this stuff with impunity.

5 Yeah, \$30 million is a lot of money to them.
6 Of course, we don't see much of it. But at the
7 end of the day, they still have to pay a price
8 for doing something illegal. That's just me, you
9 know.

10 MR. PATSY: I agree. I'll work on my
11 argument.

12 (Laughter)

13 MR. DARAGJATI: This case -- this issue
14 actually came in front of the Supreme Court about
15 three years ago, the very philosophical argument
16 you're having right now. There's a challenge to
17 a fraud-on-the-market theory that all of these
18 cases are based on.

19 And the court kind of split along the lines
20 that you would expect it to, but they kept --
21 they kept the theory intact, which allowed these
22 cases to continue.

23 MR. GREIVE: Mr. Chair, not to belabor this
24 point, but what my friend, Rick Patsy, knows,
25 he's not the only one out there on a limb on this

1 issue.

2 My thoughts on this topic do tend to lean a
3 little more towards Rick's comments than, you
4 know, our practices over time. Not that there's
5 not some reason to do it. You know, you keep
6 people honest by serving as a check and balance
7 against them. Get your counsel to do it. Maybe
8 you feel you have -- you can do a better job at
9 it than some other Board that's out there.

10 It does -- my observation, you know, from
11 reading *Pensions and Investments* and seeing
12 things transpire around the country, and maybe
13 Tim's seen this too, given that he's a
14 professional in this industry, it does seem that
15 public safety pension funds, you know, tend to
16 carry this pitchfork more often than nonpublic
17 safety funds.

18 But, you know, there may be some sense to
19 that too. There's counter-arguments to all this
20 stuff, and if these cases do go to trial and
21 you're a public safety fund, you may get a little
22 more sympathy or empathy from a jury in that you
23 can make the case that, you know, my guys are
24 running into burning buildings, getting shot at,
25 and here you are, you corporate fat cats, you

1 know, stealing our money from our guys that are
2 risking their lives. So there are, you know,
3 counter-arguments to all this.

4 At the GEPP and Corrections, we tend to just
5 participate as a class member more often than we
6 take lead in a case. In fact, I don't think in
7 the six years I've been here we've taken lead in
8 a case, because there is staff time. You know,
9 there are some costs just in time of having to
10 cooperate.

11 You know, those are just my thoughts on the
12 topic. You know, I completely understand, like
13 Trustee Patsy does, you know, why we may feel
14 compelled occasionally to take a case. But I've
15 tended to lean the other way and just serve as a
16 participant.

17 If I got fired up about something, maybe
18 like I bought Wells Fargo stock not knowing about
19 their retail scandal, and then I sold it and lost
20 money, maybe I'd want to -- which, I don't know.
21 Has anybody started a case like that yet? I'm
22 sure somebody is working on it.

23 MR. DARAGJATI: I heard something in
24 California is going on.

25 MR. GREIVE: Yeah, yeah.

1 CHAIRMAN TUTEN: I'm sure that's going to
2 get fired up.

3 MR. GREIVE: Yeah, stuff like that. I'm
4 sure someone is going to get fired up on that.

5 MS. McCAGUE: So just to correct a statement
6 I made earlier when you asked the question,
7 Mr. Chairman, how many of these cases have we
8 been involved in, it's more than five.

9 There were five where there were favorable
10 outcomes, and there were several that we filed to
11 be primary lead and did not get that privilege.

12 CHAIRMAN TUTEN: Right. And it's like I
13 say, though, at the end of the day where every
14 budget, every line, everything we do here, people
15 are inspecting our finances, every single thing
16 we do -- and, hey, if it takes three years, if it
17 takes eight years and if it's only a \$50,000
18 check, that's still \$50,000 more than that we had
19 yesterday.

20 And no one can come back and say, well, why
21 haven't you guys fought to get back that money
22 you lost from X-Y-Z Company or -- because I can
23 promise you, they would say it if they knew it.
24 That's just the world we live in.

25 But I'm like you. I don't think -- and we

1 don't chase every ambulance that comes down the
2 road. But I think if it doesn't cost us anything
3 and it makes us some money, hey, that's more
4 money than we had yesterday. But that's just me.

5 MR. PATSY: I agree.

6 CHAIRMAN TUTEN: Work on your argument,
7 Rich.

8 DIRECTOR JOHNSON: All right. Paul, do you
9 have anything else?

10 MR. DARAGJATI: Nothing further of substance
11 for the Board.

12 DIRECTOR JOHNSON: Very good. Thank you for
13 that report.

14 All right. Next up we have Dan Holmes from
15 Summit. Dan should be on the -- there he is.
16 Hey, Dan.

17 MR. HOLMES: Good morning. Can you hear me
18 okay?

19 DIRECTOR JOHNSON: Yes, we can.

20 MR. HOLMES: And can you see me okay?

21 DIRECTOR JOHNSON: Yeah, we've got you on
22 the Jumbotron. You look great.

23 MR. HOLMES: Well, thank you. I appreciate
24 it. I have three things to cover today.

25 First, the Monthly Economic and Capital

1 Market Review; second, the monthly Flash Report
2 and preliminary results for the fiscal year; and,
3 third, a small rebalancing recommendation.

4 So I'll jump right into it unless there's
5 any questions.

6 Okay. First, the highlight with regard to
7 the Economic and Capital Market Review.

8 September was a relatively quiet month for both
9 the economy and the capital markets. The fed
10 didn't raise interest rates, so that helped keep
11 things rather quiet.

12 At the end of September, the market was
13 implying a 60 percent rate -- I'm sorry, 60
14 percent chance of a rate hike by the fed in the
15 month of December. It sounds like they're going
16 to remain quiet in both October and November
17 going forward.

18 We saw the labor market have some positive
19 news during the course of the month. A
20 significant number of jobs were added. That's
21 the 72nd consecutive month where there was a job
22 add to the overall payrolls.

23 It was a little bit less than what was
24 expected, but the bottom line is, is that wage
25 inflation is going up. Wages rose over 2.6

1 percent for the last 12 months. It's the wage
2 inflation that is driving the fed towards
3 considering raising rates.

4 The unemployment rate went up to 10 basis
5 points at the end of the month because the labor
6 force participation rate went up as well. So at
7 the end of September, unemployment was at 5
8 percent. Not a big -- not a big change.

9 On positive news, GDP, the real GDP, rose
10 1.4 percent annualized rate. That's the final
11 print for the second quarter. That was up from
12 1.2 percent.

13 On the other side of the equation, it's also
14 another month where we're below 2 percent. So
15 right now consensus is, is that we're going to
16 be -- it's going to be kind of hard for GDP for
17 the end of the year to come in much more than 2
18 percent.

19 We're still -- the economy is still
20 considered to be in a growth mode, albeit a very
21 slow growth mode. The ISM, Nonmanufacturing
22 Purchaser's Index, remained above 50 percent. As
23 a matter of fact, it took a little bit of a jump,
24 up from 53 to 57 percent. The 53, we think, was
25 a little bit more of an abnormality -- actually,

1 it was 51, not just 53. So it jumped up to 57 at
2 the end of September.

3 So, really, anything above 50 percent shows
4 that the economy is in an expansionary mode. So
5 that's all good news.

6 Now, let's translate that to the results in
7 terms of the capital markets. As I mentioned
8 before, basically it was a pretty quiet month for
9 September, but now we're also -- we're
10 coordinating the results for the fiscal year.
11 And what you'll see is that large -- domestic
12 large-cap stocks were basically flat for the
13 month, but for the calendar year -- I'm sorry,
14 for the fiscal year, they're up over 15 percent.

15 So you'll expect results accordingly in your
16 portfolio. Small-cap stocks were up a little
17 over 1 percent for the month and, more
18 importantly, 9 percent for the quarter. But,
19 again, up over 15 percent for the fiscal year.

20 International developed stocks were up a
21 little over 1 percent for the month. They were
22 up less for the fiscal year. They had started
23 off slow, started to come back, then at the end
24 of June Brexit hit. They had to recover from
25 Brexit, and now they're back up for the fiscal

1 year about 6 1/2 percent. That's offset by
2 emerging market results.

3 You see emerging markets were the leader,
4 one of the leaders for the fiscal year, up over
5 16 percent. And, again, it's still positive at
6 the end of September as well for the month.

7 Other growth assets. MLPs' high-yield debt
8 were also fairly strong as well, emerging market
9 debt. So for the fiscal year, emerging market
10 debt was up over 17 percent. High-yield was up
11 over almost 13 percent, and then MLPs up almost
12 13 percent as well. So exposure to those drill
13 assets helped in the portfolio.

14 Looking at the bottom side for the month,
15 bonds, domestic investment-grade bonds were also
16 flat, off about 10 basis points but up about 5.2
17 percent for the -- for the fiscal year.
18 Corporate bonds led the way along with 9 US bonds
19 as the dollars weakened during that time period.

20 The only other thing I'll mention, we don't
21 have any particular exposure to long treasuries,
22 but with the decline in interest rates earlier
23 this year, you saw that bond treasuries also
24 rallied during the course of the year.

25 That's the economic and capital market

1 backdrop for your fiscal year returns. Let me
2 stop and see if there's any questions.

3 Okay. Hearing none, hopefully it's not
4 because my speaker's out, we'll move on to the
5 Flash Report.

6 Following in the deck you should have the
7 Flash Report. Let me caution. These are
8 preliminary returns. We've got the first print
9 of accounting statements from the custodian.
10 There may be some adjustments between now and the
11 November full quarterly return, but this should
12 be fairly accurate. Sometimes the real estate
13 returns lag a little bit, but this should be a
14 pretty good approximation.

15 So the first thing I'll point out is at the
16 end of the quarter and fiscal year, market value
17 was up at 1 -- approximately \$1.6 billion.
18 That's where our market value added.

19 The asset allocation was within the
20 investment policy range that's permitted in the
21 investment policy. They were overweight in
22 equities and a little bit in fixed income and
23 also MLPs. There was underweight in real estate
24 by about 3 percent, all within the policy range.

25 So if you turn to the first page, we'll

1 note -- and I'll give you both gross and net of
2 fees number on returns.

3 On a gross basis, the total fund was up
4 almost 11 percent for the fiscal year. On a net
5 basis, it was up 10 1/2 percent.

6 MS. McCAGUE: Excuse me. Dan --

7 MR. HOLMES: To be precise, 10.48 percent.

8 MS. McCAGUE: Dan --

9 MR. HOLMES: Yes, ma'am.

10 MS. McCAGUE: Hi, it's Beth. I just want
11 you to repeat that net number again.

12 MR. HOLMES: 10.48 --

13 MS. McCAGUE: Thank you.

14 MR. HOLMES: -- or approximately 10.5
15 percent on a net-net basis.

16 MS. McCAGUE: Thank you.

17 MR. HOLMES: Okay. The returns for all the
18 asset classes were also strong for the fiscal
19 year. So in domestic equity, the domestic equity
20 portfolio was up approximately 13 1/2 percent on
21 a gross basis, approximately 13 percent on a net
22 basis.

23 The international equity portfolio was up
24 over 12 percent on a gross basis and 11.6 percent
25 on a net basis.

1 Fixed income was up 5.7 percent
2 approximately on a gross basis and 5.6 percent
3 net.

4 And then finally both real estate and MLPs.
5 Real estate was up 8.8 percent net, 9.8 gross.
6 And then MLPs were up 14.5 percent on a gross
7 basis and 13.7 on a net basis. So putting it in
8 perspective, what we saw was that MLPs were the
9 highest performing asset class in the portfolio.
10 That's a significant turnaround over 2015. We
11 saw after that domestic equity, international
12 equity, real estate, and then finally the fixed
13 income portfolio.

14 In addition to that, I'd say that all
15 exceeded our long-term capital market
16 expectations. There are specific reasons for
17 that in a number of asset classes, primarily
18 recovery of prices relative to fundamentals.

19 So examples of that would be in the MLP
20 portfolio. MLPs came back with the price of oil
21 coming back, but they continue to appreciate from
22 there, given where both yields were and also the
23 underlying fundamentals in that sector. Both
24 your managers performed fairly well.

25 In the international, international equities

1 were led by emerging markets. The emerging
2 markets manager was up over 16 percent. So MLPs
3 and emerging markets were two areas that were
4 down last year and they've had a sharp turnaround
5 so far this year.

6 Couple other things to note. In the
7 domestic equity portfolio, large-cap managers,
8 the active large-cap managers by and large
9 underperformed during the course of the year.
10 We've got ongoing discussions with the Financial
11 Investment Advisory Committee about that.

12 Eagle had an issue earlier this year running
13 a concentrated portfolio. We believe that's a
14 short-term issue and will correct itself. Their
15 performance did start to come back this most
16 recent quarter.

17 And then in addition to that, the two
18 large-cap growth managers, we believe the issue
19 with regard to large-cap growth is more
20 structural, and we're going to have conversations
21 with the Financial Investment Advisory Committee
22 on those issues at the beginning of next month.

23 That's it. With regard to formal comments,
24 I want to kind of keep it -- unless there's any
25 questions.

1 DIRECTOR JOHNSON: No, Dan. You can go
2 right ahead. You have a recommendation you
3 wanted to make too with regard to rebalancing.

4 MR. HOLMES: Yeah. I actually --
5 Mr. Johnson, thank you. I appreciate it.

6 One thing I was also going to mention in
7 terms of turnaround issues, in this day and age
8 where information is produced almost minute by
9 minute, we look at performance on literally a
10 daily and a monthly basis, but these assets are
11 adjusted for the long term. It's important to
12 kind of keep that long-term investment
13 perspective.

14 The reason I mention that is, again, in
15 terms of turnarounds, Baillie Gifford was the
16 manager last year that was down significantly
17 both in terms of underperforming their benchmark
18 and then negative returns on an absolute basis.
19 They are one of the best performing managers so
20 far this year. So, again, I want to try to keep
21 and maintain that long-term perspective in terms
22 of judging performance.

23 So that's the last comment I'll have about
24 performance. I have a memo included in the
25 package regarding a rebalancing recommendation.

1 The rebalancing recommendation, one area
2 where we can rebalance at this time is emerging
3 markets and international. The emerging markets
4 manager and composite was under its benchmark
5 weight -- that's the target weight -- by about \$7
6 million. Our recommendation is to take that from
7 the EAFE Index Fund and move that into the
8 emerging markets -- the emerging markets part of
9 the portfolio, specifically, Acadian.

10 The reasons behind it is, is that although
11 emerging markets has had a good, strong
12 performance run so far this year, we believe that
13 that will continue. We also believe that the
14 expected return for emerging markets is higher
15 than developed markets, both international and
16 US. And we also believe that emerging markets
17 remain relatively cheap compared to those other
18 areas of equity. Therefore, our recommendation
19 is to rebalance and bring that up to target.

20 I'll stop there to see if there's any
21 questions.

22 MR. PATSY: Dan, this is Rick.

23 Last spring we approved a couple of fixed
24 income managers. Can you give us an update on
25 how we're doing as far as when we might be

1 reallocating towards them?

2 MR. HOLMES: Sure. Contracts were under
3 review for Neuberger Berman. I have successfully
4 finished negotiating investment policy with them.
5 Recall that they are a commingled fund, and what
6 we needed to do was go through what they were
7 going to put in the commingle fund and make sure
8 that there was statutory support for every single
9 type of security that they were going to hold
10 because it was a fund. They don't have the
11 ability to not hold something because it's a
12 fund. So we've finished that and forwarded that
13 on to counsel for contract review.

14 Today at 12:30 my time, I hope to finish the
15 same negotiations with Loomis. It's been a
16 little bit more difficult negotiating with Loomis
17 in terms of getting them to review the statute on
18 a security-by-security basis in terms of what's
19 permitted, and I hope to have that put to bed
20 this afternoon.

21 MR. PATSY: Okay. And when are you going to
22 make -- when are we going to make -- well,
23 assuming you get everything signed, sealed and
24 delivered in the next few days, first of
25 November, are we going to make the move?

1 MR. HOLMES: As soon as contracts are
2 signed, we can start the transition. It will
3 take about a week to get the transition done. It
4 will take the managers probably a couple weeks to
5 right-size the portfolio.

6 Our intention is to transfer in kind.
7 There's no need to use a transition manager. The
8 managers receiving assets in kind would go out
9 and receive basically three bids and take the
10 best bid for securities they don't want to hold.
11 A transition manager would do the exact same
12 thing. So there's no reason to spend the cost
13 for that middle third-party, if you will.

14 MR. PATSY: Okay. Both of these managers
15 are pretty big on the fixed income side in that
16 in cost-trading where they might be able to use
17 those securities internally, is there any
18 provisions as far as the transition on that?

19 MR. HOLMES: Well, the idea would be
20 transfer all the assets in kind. The new
21 managers can keep what they want, and then they
22 can -- they can liquidate the rest of the
23 portfolio that they don't want to hold.

24 MR. PATSY: Okay. That's it.

25 CHAIRMAN TUTEN: All right. We need a

1 motion to approve the transfer of the \$7 million
2 into Acadian.

3 MR. PATSY: I'll make the motion.

4 CHAIRMAN TUTEN: Make a motion. We got a
5 second?

6 MR. BROWN: I'll second.

7 CHAIRMAN TUTEN: Any questions? All in
8 favor?

9 (Responses of "aye.")

10 CHAIRMAN TUTEN: Opposed?

11 (No responses.)

12 CHAIRMAN TUTEN: It passed.

13 DIRECTOR JOHNSON: Motion carries.

14 Hey, Dan, thank you very much.

15 MR. HOLMES: Okay. Thank you. Everybody
16 have a good weekend.

17 MR. BROWN: You too.

18 MR. PATSY: Thanks, Dan.

19 DIRECTOR JOHNSON: The next item in your
20 Board book is Old Business. This Old Business is
21 related to the Financial Investment Advisory
22 Committee recommendation with regard to the
23 selection of a new actuary.

24 And I'll turn it over to Brian. Hello,
25 again.

1 MR. SMITH: Hello.

2 The Financial Investment Advisory Committee,
3 one of our charges is to help advise the Board of
4 Trustees on investment issues, but also actuarial
5 issues.

6 So I put together a report for you, but just
7 to summarize, we had an opportunity as a
8 committee to interview the top three actuaries
9 that had made presentation to us with their RFPs.
10 Of the three that we interviewed, two of them
11 really did their homework and quickly rose to the
12 top. The one who didn't perform as well was not
13 familiar with the recent tax that had passed and
14 House Bill 1297. That was cause for concern for
15 us because that's a big issue to address coming
16 forward.

17 So that left us with two firms that were
18 very, very close. One was GRS and the other was
19 Nyhart. And, actually, when we went around and
20 polled after hearing presentations, we're kind of
21 split.

22 The general consensus was that either one
23 would be a great actuary, but we couldn't pick
24 both. We had to pick one. So I want to point
25 you to a document that's actually under Tim's

1 report, under Executive Director Report.

2 The page isn't numbered, but if you start at
3 the beginning of his report and go in six pages,
4 you'll see a report look looks this. It says
5 Evaluation Matrix.

6 On the Evaluation Matrix we had five
7 criterion that we were looking at, and you can
8 see them at the top. We wanted to know did they
9 have experience working with public plans, did
10 they demonstrate the ability to effectively
11 communicate actuarial principles and so on.

12 We gave 20 percent weight to each of those
13 areas. And if you look at the bottom, you'll see
14 where it says Final Score. We had eight
15 evaluators which were members of the Financial
16 Investment Advisory Committee who were present at
17 the meeting and also several Board of Trustee
18 members there, in addition to Tim and Beth and
19 Devin and Joey.

20 You can see the scoring. If you go to the
21 bottom you can see that GRS came in with the
22 highest score at 92.25, and Nyhart came in at 86.

23 Above that you'll see their pricing. I
24 know, for instance, personally, Nyhart, I scored
25 them lower in the pricing area because they were

1 the highest in terms of their bidding among the
2 three.

3 So GRS won the scoring. But I remember
4 having a feeling after the presentations that
5 even though I scored GRS higher because of
6 pricing, I know I personally felt a little bit
7 more comfortable with Nyhart at the time, and
8 there were other people that felt that way as
9 well. So we did some additional digging.

10 At our meeting we actually got on the phone
11 and we called Nyhart and GRS to ask some
12 additional questions that we had, and it was also
13 a little bit of a test on, are they going to pick
14 up the phone when you call? And to both of their
15 credit, the lead actuary who had made the
16 presentation, both of them got on the line right
17 away and answered all of our questions. So it
18 was very, very close.

19 If you'll go back to the Old Business
20 section where my report is, I outlined the top
21 six things that we felt helped GRS have the edge
22 in the presentation.

23 One was GRS was a larger firm. They have
24 more resources at their disposal. And these we
25 came up with -- I actually asked the committee.

1 I said, I'm making a presentation to the Board of
2 Trustees. Tell me why you as a committee have
3 picked GRS so I can accurately make that
4 presentation.

5 Two: We were impressed with GRS's actuarial
6 software that they had -- they actually had two
7 sets of software. One: They had a proprietary
8 actuarial software that they felt was even better
9 than the leading actuarial software out there,
10 which is called ProVal. The two other companies
11 talked about ProVal. ProVal is the best software
12 out there. It's the best third-party software
13 out there, but GRS had the resources to actually
14 create their own.

15 So we like ProVal. We use ProVal. If you
16 want us to use ProVal, we will. But we actually
17 use ProVal more for a transitioning tool and as a
18 check and balance on our own actuarial software
19 which we feel will give you more and better data
20 than even the ProVal software can provide.

21 GRS also spent a lot of time in their
22 presentation to us discussing several funding
23 scenarios related to House Bill 1297, and they
24 did it in even greater detail than the other
25 firms.

1 You know, one of the questions is, when the
2 sales tax kicks in in 2030, how is the funding
3 going to happen? Is it going to be an even
4 thing? Is it going to be done different on each
5 particular year? And they showed us a number of
6 those scenarios.

7 The lead actuary at GRS, Pete Strong, had
8 indicated that because of the size of our fund,
9 that we would be a top priority. I know there
10 was a concern. He said, I have 22 pension funds
11 that I'm the lead actuary on. And I remember
12 thinking, that's kind of a high number. He said,
13 well, actually, many of these are much smaller
14 funds. They don't take as much as my time, but I
15 will transition -- if you select us, I will
16 transition some of those funds out of my
17 portfolio to another actuary so that we'll make
18 sure that you get the service that your fund
19 would expect from our firm.

20 He also said, you'll have my cell phone
21 number. You can call me anytime. You can reach
22 me at the office. If you can't get me in the
23 office and you want to catch me after hours, you
24 can call me on the cell phone.

25 GRS also had more software resources. They

1 provided a software called GRS Advantage. They
2 said it was no additional charge. It allowed for
3 performance benchmarking of our fund in terms of
4 performance versus other pension funds out there.
5 And I think the GRS Advantage, if I'm not
6 mistaken, also included a Social Security death
7 check feature to it. We felt like that that
8 wasn't -- that we had ways to check that, but it
9 was something that they threw in.

10 And, finally, GRS had the best pricing on
11 their annual actuarial valuation report and their
12 experience study.

13 Now, if you go back to the other page,
14 you'll see that their hourly rates for special
15 projects are higher. I'm sure that's something
16 we can discuss with them on their hourly rates.
17 And they had mentioned that typically they give a
18 10 to 15 percent discount of posted hourly rates
19 anyway.

20 So both of them were excellent firms. We
21 felt GRS had the edge.

22 MS. BROSCHE: I have a question. And thank
23 you for that report, Brian.

24 The information in the Executive Director's
25 Report is actually really helpful, and I was

1 having a hard time reconciling the lowest price
2 with the highest rates listed.

3 And I guess based on everybody's
4 involvement -- and I applied a consistent
5 methodology to kind of take the rates to the
6 total fee that's listed, and it shows that GRS is
7 performing at about 40 percent less hours than
8 Nyhart.

9 So if based on what you-all have
10 interviewed, you feel that that's accomplishable
11 through leverage to staff or you feel like you're
12 getting what you need to, I just wouldn't want it
13 to seem like they're putting forth less effort
14 than somebody else and the effort that you need.

15 MR. SMITH: Yeah. That's a good point and
16 certainly something that we thought about,
17 considered and addressed, because there's a lot
18 of important work for our next actuarial firm in
19 the coming years. And we feel confident that
20 this firm had the resources to do that.

21 MS. BROSCHE: Did either -- any of them
22 provide a blended rate?

23 MR. SMITH: It was hard to do a blended rate
24 because -- and I'll ask you to help me out on
25 this, Rick, because there are special studies and

1 special projects that you'll ask them to do.

2 Could you share --

3 CHAIRMAN TUTEN: Well, just like, for today,
4 for example, with the Christmas bonuses, et
5 cetera, how long does it take? Not long. But
6 what are they going to charge -- I mean, when we
7 interviewed them, with GRS, Nyhart, I kind of
8 caught them off guard because they were by far
9 the most expensive. But their hourly rates --
10 and that's what's going to happen with a lot of
11 our stuff. It's not a full-blown actuary study.

12 It's, okay, we're going to do this, we're
13 going to do that. We've got the annual audit
14 stuff we send off to people for the state. We
15 have to use the -- the Christmas bonus -- oh,
16 what was the other one? I had my notes here.

17 MR. SMITH: Well, doesn't it come up in the
18 union negotiations where you have to go to the
19 actuary and say --

20 CHAIRMAN TUTEN: Well, that's the bigger
21 unknown we have going forward. You've got two
22 unions, police and fire. They're both
23 negotiating pension benefits along with
24 paychecks.

25 Okay. Now, let's say the unions agree to

1 something. Well, before, they can -- you guys
2 can vote on it as a council to approve or
3 disapprove it, it's got to come back here. It's
4 got to go to our actuary. They've got to run the
5 numbers to make sure that everything that's being
6 promised on the city side, the fire side, the
7 police side want all that good stuff, it's going
8 to have to be run through -- and that's a full
9 report. That's not just a two- or three-page
10 blurb. That's going to be a full, long-term,
11 okay, we're going to give X amount of people X
12 amount of raise. It's going to affect them for X
13 amount of years. I mean, stuff like that.

14 And that's going to happen, hopefully not,
15 but it could happen every three years because
16 it's negotiated as part of a contract these days,
17 which is going to increase our costs with the
18 actuary quite a bit from what we normally have,
19 which is one or two -- one big report, the annual
20 report, and then a couple here and there.

21 I don't know how much that's going to cost.
22 I'll be honest with you, full disclosure, I rated
23 everybody 100. If they're wondering who that
24 was, that was me, simply because as far as --

25 (Laughter)

1 CHAIRMAN TUTEN: -- as far as actuaries go,
2 I think they're all more than competent to do
3 number crunching, you know.

4 The difference between the other two, it
5 seems like, which I found interesting because
6 I've never seen it with actuaries, they seem like
7 they're providing more services to go along with
8 just the basic actuary function, you know.

9 And whether that's good or bad, I have no
10 opinion. I don't see myself logging online and
11 running numbers because I have so much free time
12 to do that kind of stuff, but it doesn't hurt.
13 You know, it's nice to know.

14 But the bottom line is, is really -- the
15 biggest question I have is how much are they
16 going to charge us, and that's just for the usual
17 stuff, but now because we have the negotiations
18 every three years, what if -- okay, the first go
19 by, we agree it to, the city agrees to it. But
20 let's say the council says, look, I think that
21 benefit or whatever you-all have agreed to is too
22 much or too little.

23 Well, guess what, now we have to run all
24 that back to the actuary, and just a little
25 tweak, but -- the only thing that concerned me

1 with GRS, and I think I mentioned it to them in
2 the interview was the fact that -- I think you
3 made the comment that, well, that would not be
4 something that we would do for the senior
5 consultant. That would just be somebody on
6 staff. In other words, it would be cheaper.

7 MR. SMITH: Well, also what they had
8 indicated -- because I had a concern. I know
9 when you look at that, you go, wow, they come in
10 with a low bid, right, and then they're just
11 going to eat us alive on the hourly charges.
12 That was a concern I had.

13 They said, look, we show you these hourly
14 rates, but typically we do flat-rate pricing.
15 You said, hey, this is a special project, this is
16 what we need done, what is it going to cost, so
17 that you have a fixed cost and a fixed
18 understanding of the specific report or work that
19 you're asking them to do.

20 MS. McCAGUE: The other thing that they
21 mentioned is that Nyhart -- both of them had good
22 software. Nyhart's software was not available to
23 the staff, much less the members. GRS was.

24 And Nyhart, when questioned about that,
25 Nyhart said, well, we use our software to help

1 our consultants, our experts, consult with you;
2 whereas, GRS says, we make that available so you
3 can run your own scenarios, what ifs. You don't
4 need us for that. You can do that on your own if
5 you choose to.

6 So what they're saying is that you can use
7 our software and we're not charging you our time
8 by the hour, versus Nyhart would say, you can use
9 our software, but we will do the work for you and
10 we will be charging you by the hour.

11 CHAIRMAN TUTEN: And I think that's -- I
12 think that's something -- getting back to the
13 contract side of it, that would be something that
14 the unions, if they wanted to come and say, look,
15 we've got some proposals, can we run some numbers
16 maybe just to see what the impact would be, that
17 would be awesome as part of the package. No
18 problem. That would be great.

19 Nyhart, I think, like you said, not only
20 were they extremely more expensive than everyone
21 else, but they really didn't have any sort of --
22 you know, anything else to offer other than the
23 actuary, which is fine. I thought they would be
24 fine. You know, I thought everybody would be
25 fine as an actuary.

1 I don't know -- GRS, if I can remember my
2 notes correctly, I think GRS was -- I believe
3 they were the one that I would pick. You know, I
4 can't say for sure because I don't have my notes,
5 but I know it wasn't Nyhart. Just something
6 about them was too -- too limited, in my opinion,
7 but that's just me. So I have no problem with
8 the GRS recommendation from you guys.

9 MR. PATSY: I always have a bias going with
10 the lowest cost provider because sometimes you
11 get what you pay for.

12 CHAIRMAN TUTEN: Right.

13 MR. PATSY: I spent the early part of my
14 career as an aviator with the US Navy, and I
15 didn't take great comfort in knowing that my
16 aircraft was made by the lowest bidder.

17 (Laughter)

18 MR. PATSY: But I have experience with GRS
19 and they've proven themselves to be a
20 straight-shooter, apolitical, which I value
21 highly in something like an actuary. They've
22 always done a good job for us.

23 But were you able or did you have anybody
24 check references?

25 MS. McCAGUE: Yes.

1 MR. SMITH: The staff checked references.
2 Can we get a report on that?

3 MR. PATSY: To me, that would be helpful
4 because all the presentations were really nice.
5 But, you know, are they walking their talk.

6 DIRECTOR JOHNSON: Devin, are these the
7 references, or do you want to comment on it?

8 MR. CARTER: This right here is your
9 evaluation score here. So I brought that just in
10 case. But as far as references, I did check,
11 and, of course, for references, you can't go
12 wrong with either of the two.

13 So checking Miami, St. Petersburg, also Fort
14 Lauderdale.

15 MS. McCAGUE: And you also confirmed with
16 the Division of Retirement Services --

17 MR. CARTER: The Division of Retirement
18 Services --

19 MS. McCAGUE: -- the quality of these two
20 firms.

21 MR. PATSY: And they were all favorable?

22 MR. CARTER: Everyone was favorable.

23 MR. PATSY: Okay. One of the firms, I think
24 it was Nyhart, had just been hired by St. Pete?

25 MR. CARTER: Uh-huh.

1 MR. PATSY: Were you able to check that one?

2 MR. CARTER: Yes. Everything was great.

3 Said the transition was smooth, the time limit,
4 and they're satisfied with the service so far.

5 MR. PATSY: That's good. Thank you.

6 DIRECTOR JOHNSON: Do we need a motion to
7 approve the recommendation of the FIAC?

8 MR. PAYNE: So moved.

9 DIRECTOR JOHNSON: Mr. Chairman, do you want
10 to call that?

11 MR. BROWN: Mr. Chairman --

12 CHAIRMAN TUTEN: Oh. Let me read this real
13 quick. Yeah.

14 Okay. We need a motion to accept GRS and
15 hope for the best. All right. We need a motion.

16 MR. PAYNE: So moved.

17 MR. BROWN: Second.

18 CHAIRMAN TUTEN: We have a motion and we
19 have a second. Any further discussion on GRS?

20 Quick pause. Does GRS work for CSX?

21 MR. PATSY: They do not.

22 CHAIRMAN TUTEN: They do not. Okay.

23 MR. PATSY: I worked with them 15 years ago.

24 CHAIRMAN TUTEN: Do you have any personal --

25 MR. PATSY: I don't --

1 CHAIRMAN TUTEN: Any conflict here?

2 MR. PATSY: No. There's no conflict
3 whatsoever.

4 CHAIRMAN TUTEN: Just checking, pal.

5 MR. PATSY: Now, I will bring up one point.
6 I was a little disconcerted. Segal is the City's
7 actuary. And I asked. Segal didn't apply. And
8 I was a little disconcerted by that because I
9 thought, the economy's to scale, you know. We
10 could benefit from that, the same way we do with
11 Summit and some of our investment managers.

12 And the response I got as to why they didn't
13 apply, they were concerned about a potential
14 conflict of interest. And I found that a little
15 disconcerting because here's a third party,
16 theoretically, independent entity that works for
17 the city that was concerned that there could be a
18 potential conflict of interest going down the
19 road if they worked with us.

20 And I didn't delve into it more deeply
21 because we weren't going to reconsider them or
22 anything like that, but I was throwing that out
23 there as something that I found a little
24 disconcerting, that that entity found that they
25 might have a conflict of interest while other

1 entities do not seem to think they would have a
2 conflict of interest.

3 MS. McCAGUE: And just to clarify. I gave
4 Rick that information. He asked me the question.
5 That's speculation on our part, and I think Joey
6 indicated that to me.

7 MR. GREIVE: Yeah. You know, just like in
8 the audit world, which Councilmember Brosche
9 could probably, you know, enlighten us on.

10 But there's conflicts of interests and
11 there's perceived conflicts of interests. And I
12 think their concern was more in that perceived
13 conflicts-of-interest bucket.

14 I don't think there would have been a
15 conflict, but there could arise a situation down
16 the road that could cause a potential or
17 perceived conflict. And I think that's -- they
18 wanted to err on the cautious side when making
19 their decision. So I think -- I mean, that was
20 their thinking when deciding whether or not to
21 bid.

22 Milliman. Clear conflict. They absolutely
23 cannot bid on this business. Segal, it was more
24 of a perceived-as-potential type question.

25 CHAIRMAN TUTEN: Yeah. I think too having a

1 separate one -- because, you know, we do these
2 reports and these studies, and the city has their
3 actuarial numbers. We have ours. We come back,
4 and most of the time they don't quite mesh up so
5 we have to let them figure it out. So I think
6 it's good to have it separate.

7 MR. PATSY: Well, to a certain degree it's
8 disconcerting to me because now we're going to
9 have to -- if we want to get any kind of
10 perceived additional benefits from a shared
11 relationship, we're going to have to wait at
12 least three years before we get to that point.

13 CHAIRMAN TUTEN: I think that what's more
14 concerning is the fact that, like you said, a
15 supposed private-sector independent entity would
16 say there might be a conflict of interest for
17 simply doing the same job for two different
18 public-sector entities when it's just numbers
19 coming in and numbers going out --

20 MR. PATSY: Yeah, yeah.

21 CHAIRMAN TUTEN: -- and there should not
22 be -- unless, of course, someone were to tell you
23 to maybe do something a little different with
24 those numbers than should be done. Not saying
25 anything further.

1 We have a motion. We have a second. Call
2 for the vote. All in favor?

3 (Responses of "aye.")

4 CHAIRMAN TUTEN: Any opposed?

5 (No responses.)

6 CHAIRMAN TUTEN: No. G -- who is it? GRS
7 it is.

8 MR. SMITH: GRS, yes, sir.

9 CHAIRMAN TUTEN: Fingers crossed.

10 DIRECTOR JOHNSON: And I think Rick
11 clarified. The only thing I was going to make
12 clear is that we're approving this based on
13 three-year pricing as submitted in their fee
14 schedule. Very good.

15 All right. There's only one more tab left
16 on the book. I really appreciate your patience.
17 That tab relates to the external audit of the
18 plan.

19 This is awarded on an annual basis with
20 KBLD. I'd like the Chair to entertain a motion
21 that we engage KBLD for the September 30, 2016
22 audit, and that you would give us the latitude of
23 signing that contract after it's been reviewed by
24 the Office of General Counsel.

25 In other words, I don't want to wait until

1 November to approve this. Give me the approval
2 now --

3 CHAIRMAN TUTEN: Okay. You want the OGC to,
4 what, review the letter?

5 DIRECTOR JOHNSON: They've already got --
6 they've already reviewed it and they sent their
7 changes to KBLD for acceptance.

8 So rather than waiting another month --

9 CHAIRMAN TUTEN: What were the changes as
10 far as -- is there anything the Board needs to be
11 concerned about as far as the changes?

12 DIRECTOR JOHNSON: Our attorney is here.
13 Let's find out.

14 Stephen, were you prepared to talk about the
15 review of the KBLD?

16 MS. MANNING: That was actually John Sawyer.

17 MR. DURDEN: Yeah. I -- I did not -- I
18 enjoy coming here and doing the things I do, but
19 I am not going to review contracts because we
20 have contracts lawyers. I apologize. I did not
21 have that to review. If you would like, I can
22 give a call to John --

23 DIRECTOR JOHNSON: Well, let me jump in on
24 this.

25 This is something that I've instituted,

1 Mr. Chairman. I would like there to be
2 consistency in the review of the agreements that
3 we make with vendors. So for my own signature,
4 I'm requiring review of the Office of General
5 Counsel before I put my name to it.

6 So this is just a quality check to insure
7 consistency in our engagements. If there was
8 anything substantive, I would have brought it
9 back. I don't believe it is. I believe it's
10 just to form.

11 CHAIRMAN TUTEN: Okay. Well, the -- the
12 Board's the final responsibility. So anything we
13 sign off on, we're responsible for. I don't
14 know -- I've got the letter here.

15 Is there something different about this
16 letter or something in this engagement letter
17 that's in the contract that the OGC didn't like
18 or changed?

19 MR. DURDEN: I can add this, without talking
20 to John specifically. His role would solely be
21 to do what you have asked Mr. Johnson to do,
22 correct things.

23 Like, for example, if there was a -- there's
24 a -- not everybody is aware, probably most people
25 know by now, there's now a provision that has to

1 go -- the state statute provides that there's now
2 a provision -- our state statutes now require
3 provision regarding public records, I think, in
4 every public contract. So it's finding stuff
5 like that.

6 If there was something in there that
7 required -- let's suppose that your vendor had in
8 a form contract, we hereby demand that each Board
9 member be personally liable for anything that
10 would ever happen. And our lawyer would look at
11 that and go, oh, no, no, no. We don't make those
12 kind of promises.

13 It would be that kind of -- to make sure
14 that you're getting what you expect to get
15 consistent with fair contract terms. I have
16 little doubt that -- in fact, in speaking with
17 Mr. Johnson, where there's a concern, that's what
18 Mr. Sawyer is there for. He understands and he
19 does contracts in a lot of different areas. We
20 have a number of contracts lawyers who's
21 concerned about the big picture of what city
22 contracts should look like, not about the
23 substance, not about the amounts, not about
24 anything that's -- that changes the deal, just
25 simply to make sure that there's not a promise in

1 there that -- that shouldn't be there or that
2 you're making to a vendor that should not be
3 there.

4 And that would be the kind of stuff --
5 anything like that, I guarantee, goes to
6 Mr. Johnson.

7 CHAIRMAN TUTEN: Yes, I believe you, Steve.

8 DIRECTOR JOHNSON: If there was a change, I
9 would have brought it back.

10 CHAIRMAN TUTEN: Well, how about this? We
11 don't need -- in the future, anything changed
12 like this, not that I don't take Steve's word for
13 it, but we've had disagreements with the city.

14 Now, I know this is something relatively
15 minor, doesn't add up to anything. But it's
16 more -- appearance is more a procedure as far as,
17 do you know what's in the contract?

18 You know, we've done it a certain way for a
19 very long time, and the contracts haven't
20 changed. I'm not saying they changed it or
21 altered it to the point where it -- you know, I
22 would need to be worried about it.

23 But at the end of the day, our signatures go
24 on that bottom line as far as this is a report
25 that's required for the state. You know, all I

1 want to do is just see, Tim, what the changes
2 were from the OGC, and then we'll move on from
3 there.

4 MR. DURDEN: All right. I do have --
5 fortunately, I've been given this, the note from
6 John to Debbie regarding the contract.

7 It's adding the benefit of certain city code
8 required terms as well as insurance and
9 indemnification from KBLD to the Board.

10 MR. CARTER: And that's it.

11 CHAIRMAN TUTEN: Have you seen it, Devin?

12 MR. CARTER: Yes. I saw it yesterday or the
13 day before. Spoke with KBLD about the changes.
14 The only small thing I had a question about,
15 which was insurance, which was up to 5 million.
16 I talked to John about it, which he told me that
17 could be negotiated, given the fact that they
18 have 2 million.

19 So everything should be okay. It's the fact
20 that we're just asking for approval so we can
21 start on the engagement based upon the acceptance
22 of the changes by OGC, and more than likely both
23 parties will agree to it.

24 MS. MANNING: Well, and it's my
25 understanding that the engagement letter itself

1 that you see in the book, there's no changes to
2 that.

3 MR. CARTER: There's no changes to that.

4 MS. MANNING: What they did is, they have a
5 separate contract that the city uses for all
6 agreements that has the wording about insurance
7 and everything in there. So it's actually a
8 separate document, and this is an addendum to
9 that.

10 CHAIRMAN TUTEN: Okay.

11 MS. MANNING: But what you see here is what
12 they've given us previously. It's just the city
13 is adding this extra step to go a little further.
14 Okay?

15 CHAIRMAN TUTEN: Okay. All right.

16 So now that Devin is on the record
17 officially as my out --

18 (Laughter)

19 CHAIRMAN TUTEN: -- what do you need from
20 us, Tim? Just to make a motion to approve or do
21 you just --

22 DIRECTOR JOHNSON: That's all I need, just a
23 motion to approve.

24 MR. BROWN: I make a motion to approve this
25 letter.

1 MR. PATSY: Second.

2 CHAIRMAN TUTEN: And a second. Any further
3 discussion?

4 (No responses.)

5 CHAIRMAN TUTEN: Good. All in favor?

6 (Responses of "aye.")

7 CHAIRMAN TUTEN: Any opposed?

8 (No responses.)

9 DIRECTOR JOHNSON: Excellent meeting. I
10 want to make sure we're all on the same page.

11 You-all took action on eight items, as I see
12 it. We're going to administer \$5.3 million for
13 the holiday bonus and the share as we did last
14 year.

15 We're going to add language as related to
16 the benefits that reads, "The calculations have
17 been reviewed in accordance to accepted
18 procedures."

19 Our attorney interviews are October 24th,
20 and all these members will receive electronic
21 materials today.

22 MS. MANNING: Actually, October 25th.

23 DIRECTOR JOHNSON: What did I say?

24 MS. MANNING: 24th.

25 DIRECTOR JOHNSON: I apologize. The 25th.

1 I will forward a copy of the lobbyist
2 contract to all the members.

3 We approved the recommendation of the FIAC
4 to engage GRS for audit services. That's three
5 years at the stated pricing.

6 We've approved the external engagement
7 letter for the audit with KBLD for fiscal year
8 September 30.

9 Approved a \$7 million rebalancing
10 recommendation by Summit.

11 I think that's everything. We've been busy.

12 MR. PATSY: One point.

13 DIRECTOR JOHNSON: Yes.

14 MR. PATSY: Bill, going through this --

15 MR. GASSETT: Yes, sir.

16 MR. PATSY: -- you used 3 percent inflation?

17 MR. GASSETT: Excellent. I forgot to
18 mention that point.

19 Yeah. You've got to make a net 4 above the
20 3 to make your numbers for the current retirees'
21 accounts. And I think the state came out and
22 said you had to do a 7.4 number, or something
23 like that. Is that correct, Tim? 7.4, 7.5.

24 DIRECTOR JOHNSON: Our discount rate is 7
25 percent.

1 MR. GASSETT: Yeah. It's got to be 10 in
2 this case because they do not take into account
3 any (inaudible) that, you know, you may have in
4 your contract.

5 And based on the update, forgive me for
6 going longer than I should, I'm glad to announce
7 that for the 15 of the last 22, you've only lost
8 money, but for 3 versus -- I'm sorry -- 19 years,
9 the alternative investment strategy, which is
10 available for sale in my office, made money 19
11 times, and yours only did it 3 times.

12 Please, I didn't mean to be angry, but,
13 gosh, darn it. Real quick. How much is the
14 difference here in terms of bucks? Try \$50
15 million.

16 That goes a long way towards meeting that
17 schedule that you guys have got to make up. Let
18 me back up -- three years ago that we adopted,
19 the payment scope, the 1.6 billion.

20 MR. GREIVE: Just to -- I don't want to get
21 into too much back and forth on public comment,
22 but one huge problem with the approach is that it
23 requires you to be in almost all stocks, I'm
24 sure, as Mr. Gassett has lobbied for no fixed
25 income exposure in our pension fund.

1 For those who are quick in math, you know,
2 had we been in all stocks in 2008 and '9, we
3 would have lost hundreds of millions of dollars.

4 MR. BROWN: 25 percent, 30 percent.

5 MR. GREIVE: So if we ever want to consider
6 upping our stock exposure, we should do so not at
7 a market peak like we're at today.

8 If you look at a 30-year chart on the stock
9 market when you get home or back to your offices,
10 you'll see three distinct peaks in S&P 500: The
11 year 2000, 2001, tech bubble and burst; the year
12 2007 and '8, with the financial crisis; and now
13 whatever you want to call today.

14 I'm not saying that today is going to end in
15 a disaster, but, you know, I would -- I would see
16 another peak if you look today.

17 So just be very careful with recommendations
18 and suggestions like this. We pay our
19 consultants a lot of money. We put a lot of
20 thought to this kind of stuff. And, you know,
21 we --

22 MR. DARAGJATI: Florida law would not allow
23 you to be in all stocks.

24 MR. GASSETT: And I agree with what you're
25 saying, but my cross is to change investment

1 strategy. This is one example.

2 I will go head to head with anybody in this
3 room on who's down on a year-by-year basis,
4 because you're in this for the long haul, not to
5 make a quick buck here in emerging markets next
6 year.

7 And we went back and did the same kind of
8 analysis that he did, including the peaks, going
9 back to 1996. And the alternative strategy
10 basically was -- I don't want to debate with you
11 on that.

12 MR. GREIVE: Yeah.

13 MR. GASSETT: You're quite right. The law
14 states that. And what does that tell you we
15 should do here? Is get in your dad-gum cars and
16 go up to the governor and say, damn it, it's
17 because of you we have this problem.

18 MR. PATSY: But fiduciary liability is, to a
19 certain degree, different by the prudent man.

20 MR. GASSETT: This is very prudent.

21 MR. GREIVE: We can adjourn and keep
22 talking.

23 MR. BROWN: That's good. I would recommend
24 doing that.

25 MR. GASSETT: How do you make the prudent

1 decision? Do you make a buck --

2 CHAIRMAN TUTEN: We'll adjourn real quick
3 and then Bill can -- anything else? Anybody?
4 Liaison?

5 MS. BROSCHE: No. All good.

6 CHAIRMAN TUTEN: Meeting adjourned.

7 (The Board meeting adjourned at 10:47 a.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, pages 3 through 97, and that the transcript is a true and correct computer-aided transcription of my stenographic notes taken at the time and place indicated herein.

DATED this 7th day of November, 2016.

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

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