

JACKSONVILLE POLICE AND FIRE PENSION FUND  
BOARD OF TRUSTEES MEETING

---

DATE: November 18, 2016

TIME: 9:04 to 10:25 a.m.

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

BOARD MEMBERS PRESENT:

Richard Patsy, Board Secretary  
William Scheu, Trustee  
Chris Brown, Trustee

STAFF PRESENT:

Timothy Johnson, Executive Director,  
Plan Administrator  
Debbie Manning, Executive Assistant  
Paul Daragjati, Board Counsel  
Dan Holmes, Summit Strategies Group

CITY REPRESENTATIVES PRESENT:

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

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 November 18, 2016

9:02 a.m.

3 - - -

4 MR. PATSY: Why don't we move straight to  
5 the pledge of allegiance.6 I pledge allegiance to the flag of the  
7 United States of America, and to the Republic for  
8 which it stands, one nation, under God,  
9 indivisible, with liberty and justice for all.

10 We do not have any deceased members?

11 DIRECTOR JOHNSON: No, we don't.

12 MR. PATSY: According to the agenda.

13 DIRECTOR JOHNSON: That is unusual, but we  
14 don't have any this month.15 MR. PATSY: Public speaking period. I have  
16 two requests here. We allow them three minutes,  
17 Tim? Is that -- just to clarify.

18 MR. DARAGJATI: That's right.

19 DIRECTOR JOHNSON: Yes. Paul confirmed.  
20 Three minutes.

21 MR. PATSY: Bill, you're up.

22 MR. GASSETT: Good morning. My presentation  
23 today is based on a good question asked at the  
24 last meeting. And that's basically, can you  
25 trust the stock market alone to deliver the

1 requirements that a pension fund investment  
2 program needs, such as yourself?

3 And so what we did about a year ago is  
4 conducted this -- constructed this chart. And  
5 what it shows was the average annual compounded  
6 rate of return on a given year.

7 So if a boy or girl joined the police or  
8 fire pension plan in 1970, you would see that on  
9 a 20-year retirement plan is -- return investment  
10 to be happy about is just under 6 percent  
11 compounded.

12 Now, you need to add 2 percent to that  
13 number because this is net of dividends, so the  
14 real number is closer to 8. Had you retired in  
15 25 years, it would be about 9 1/2 percent plus 2,  
16 11 1/2 percent compounded, and on 30 years it  
17 would be over 10 percent. Stewie (phonetic)  
18 bought up a good question about the dreaded year  
19 of '08.

20 If you look at '08, I've put in yellow the  
21 corresponding years. So in 1988, the compounded  
22 rate, even after the '08 debacle, was over 9  
23 percent.

24 For 25 years, it was over 10.2 percent, and  
25 over 30 years, the investment returns for the

1 retiree at the time would be almost 10.7 percent.

2 Interestingly, I'm willing to bet you a  
3 dollar to a doughnut, if you took just the stock  
4 investments that you had from your status report  
5 and recalculated those numbers, you'd probably  
6 come pretty close.

7 The other implication of all this is, if you  
8 go to page 2, we ran a side-by-side analysis  
9 using, again, the Dow Jones to give you something  
10 to refer to. And over a -- going back to 1995,  
11 the compounded annual rate of return was 7.7  
12 times through the 2016 numbers provided by Dan  
13 last month; whereas, the policemen's fire and  
14 pension fund results were only five times over.

15 If you go to the next column, we get to the  
16 year 2008 to get some idea what would have  
17 happened. And even here, if you look down at the  
18 bottom, the Dow Jones, as an example of an  
19 investment, was 175 percent return versus 153 by  
20 your pension fund.

21 If you turn to the next page, you'll see  
22 again my favorite, with giant colors, has been  
23 the bonds. To get the 7 percent compounded rate  
24 of return used in the original mayor's commission  
25 report for future retirees, you need a bond

1        paying 10 percent. But usually they make 9  
2        percent for your current retirees, and that kicks  
3        the bond rate up to 12 1/2 percent. I don't need  
4        to go any further on the analysis of that and  
5        possibly not succeeding.

6                We ran the numbers a little bit further, and  
7        on page 4, we said, okay, fine. Based on the  
8        amount, the balance of September '94, \$427  
9        million provided by your department, had you used  
10       the numbers recited here on the 21-year return,  
11       it would have been \$2.9 billion.

12               So that puts the current restrictive market  
13       strategy that was highlighted by the police  
14       representative here as quite excellent at only  
15       1.9 billion. So in effect the opportunity loss  
16       is \$1 billion. You know, your current cash  
17       shortage is 435 million bucks.

18               Well, guess what, guys -- ladies and  
19       gentlemen, the current investment strategy you're  
20       required to use right now is just absolutely been  
21       a diaster for you.

22               We also did what we call an infrared report,  
23       and we chose the term infrared --

24               MR. DARAGJATI: Three minutes have passed.

25               MR. GASSETT: What?

1 MR. DARAGJATI: Three minutes have passed.

2 MR. GASSETT: Okay. May I ask permission  
3 for an extra minute or so? It's up to you.

4 DIRECTOR JOHNSON: Through the chair.

5 MR. PATSY: We're good. Thanks.

6 MR. GASSETT: Okay.

7 MR. PATSY: Mr. Lee, you're next.

8 MR. LEE: I have one copy of the handout for  
9 each trustee. I'm sure additional copies could  
10 be made.

11 All right. My name is Curtis Lee, address  
12 is 7124 (inaudible) Creek Drive. Is the timer --  
13 I can't see the timer.

14 MR. DARAGJATI: I'll let you know. You're  
15 at 2 minutes, 51 seconds now.

16 MR. LEE: All right. I distributed three  
17 documents. One is a public records request  
18 letter, and there are two documents concerning  
19 DROP distributions.

20 The public records request that I gave you  
21 also discloses how Klausner Kaufman abused its  
22 position to obtain \$3 1/2 million for very little  
23 work. The windfall was not shared with the  
24 Police and Fire Pension Fund. And, again, that  
25 firm deserves to be terminated. I can provide

1 more details on these matters.

2 Also, most recently Klausner Kaufman got  
3 \$123,000 in connection with the Tower case, while  
4 as of November 8th, the Police and Fire Pension  
5 Fund had gotten absolutely zero.

6 The meeting two enclosures, Mr. Blackstone,  
7 with an older spouse, and Mr. Twisdale (phonetic)  
8 with no spouse, were able to stretch their DROP  
9 distributions at 8.4 percent until approximately  
10 age 95 or 96.

11 Why is this wrong? Number one, the 8.4  
12 percent isn't above market rate. This hurts  
13 taxpayers. Also, this violates life expectancy  
14 tables. There is no life expectancy table  
15 anywhere in this country or anywhere in the world  
16 that assumes that people will live to the age of  
17 95 or 96. And, remember, a life expectancy table  
18 represents basically when the average person will  
19 die. More accurately, a life expectancy table  
20 would take you perhaps to 82 or 83.

21 I suggest this is a huge error. It's been  
22 going on for years, if not decades. It's cost  
23 the Police and Fire Pension Fund millions of  
24 dollars. And I would assert it is illegal and  
25 violates Internal Revenue Service rules and



1 applicable federal tax law. This needs careful  
2 outside research.

3 I mentioned it to Beth McCague. I don't --  
4 I don't really think it got too far with her.  
5 Maybe her attitude was she's just a consultant  
6 and in the process of leaving.

7 But at any rate, you have to correct the  
8 abuse or you have to prove that the -- allowing  
9 people to collect DROP distributions as if they  
10 were going to live to age 95 or 96 is correct.  
11 So as of now, this Board -- this Board owns the  
12 problem. And I hope that you will treat it  
13 seriously and that you will correct it and  
14 address it.

15 Thank you.

16 MR. PATSY: All right. Thank you. And that  
17 concludes the public speaking period.

18 We can go to the Consent Agenda.

19 Paul, we have three voting members. Is that  
20 sufficient --

21 MR. DARAGJATI: That is a quorum. Yes, sir.

22 MR. PATSY: All right. Consent Agenda.

23 MR. SCHEU: I move we accept the Consent  
24 Agenda.

25 MR. PATSY: We have a motion

1 MR. BROWN: Second.

2 MR. PATSY: And we have a second.

3 Any discussion?

4 (No responses.)

5 MR. PATSY: All in favor?

6 (Responses of "aye.")

7 MR. PATSY: Opposed?

8 (No responses.)

9 MR. PATSY: Consent Agenda passes. Good.

10 That makes us -- moves us into -- forgive  
11 me.

12 DIRECTOR JOHNSON: The Executive Director's  
13 report, Mr. Chairman.

14 MR. PATSY: There you go. Thank you.

15 Tim, the ball's in your court.

16 DIRECTOR JOHNSON: Thank you.

17 So you'll find a tab titled Executive  
18 Director's Report. I will highlight the  
19 sections.

20 First of all, you'll notice a continuation  
21 of our dashboard. It gives members of the Board  
22 an update on the benefits, administrative  
23 activity of the staff for the prior month and  
24 cumulatively. It is as of the month ending  
25 that's just occurred. So in this case it's as of

1 the 31st of October. So you'll see the  
2 information for benefits to be the first new  
3 month of the new fiscal year.

4 Under that is a dashboard for retirement.  
5 You'll see retirement activity as of the first  
6 month of the new fiscal year. It carries over to  
7 page 2. It includes benefits for survivors and  
8 children. It also moves down to public record  
9 requests and on to the budget.

10 So for the budget, the top budget is the  
11 fiscal year end '16 budget. You'll see that  
12 administratively we came in under budget,  
13 \$634,249. That was primarily due to staff  
14 vacancy.

15 And then under that there is the first month  
16 of the new fiscal year 2017 budget. And, again,  
17 each month I will have an update on budget  
18 activity.

19 I won't go through a lot of detail with  
20 regard to the updates under the long-term areas  
21 of emphasis, which are Governance, Solvency,  
22 Member Education, Transparency and Outreach.

23 But for your reading, I did include a note  
24 that Chris Brown and I attended the Annual Police  
25 Officer and Firefighters' Pension Conference that

1 was held in Celebration, Florida.

2 Chris is a new trustee. I accompanied him  
3 on the first day that was devoted to new  
4 trustees.

5 Under Solvency, I've republished a letter  
6 from Mayor Curry to stakeholders throughout the  
7 city. It went to all employees of the city. So  
8 it's for the record for members of the Board to  
9 see.

10 Under Member Education, I wrote a letter in  
11 our newsletter called, "Members Want to Know  
12 More," and I republished that in my report for  
13 this month for the Board.

14 And I talked about under Outreach attending  
15 a Town Hall meeting on October 20th at the  
16 invitation of Councilman Matt Schellenberg and  
17 the response that I got there.

18 You'll see under News and Reports there are  
19 three stories that are highlighted.

20 So with that, Mr. Chairman, if there's any  
21 questions about my report, I'll entertain them  
22 now.

23 MR. GREIVE: Mr. Chair, may I ask a question  
24 after the trustees?

25 MR. PATSY: Go ahead.

1 MR. GREIVE: On the topic of transparency,  
2 could I just ask a quick question to the  
3 director?

4 Just prior to the meeting I received a  
5 complaint about the availability of meeting  
6 documents for members of the public to follow  
7 along.

8 Is there anything we can do -- do we post --  
9 I know we post the agenda online prior to the  
10 meetings. Do we also post the meeting documents  
11 that you will find in this book online as well  
12 prior to the meeting, or does that come after the  
13 meeting?

14 MS. MANNING: After the meeting.

15 MR. GREIVE: After.

16 I would just ask that we think about ways to  
17 help. I've had a member of my staff, you know,  
18 come to the meetings too to try to follow along,  
19 and they have trouble keeping up with us because  
20 they don't have the documents in front of them.

21 So if there's any way, you know, we can  
22 focus on that, you know, I think it would be  
23 helpful over time. We don't need an answer now,  
24 but . . .

25 DIRECTOR JOHNSON: Is it a protocol that you

1 follow across the street?

2 MR. GREIVE: We -- yeah. You know, one  
3 thing, I know you've been coming to our meetings,  
4 and I think that's great because we can share  
5 best practices. I've picked up a few good  
6 practices from you guys and imported it over to  
7 the city retirement system.

8 You know, one thing that we do is we print  
9 out copies of all the documents, and we have just  
10 two or three extra copies -- we don't want to  
11 kill a ton of trees for people who don't end up  
12 showing up. But just have a few available for  
13 other people, staff members, or other interested  
14 parties or the public. It may not be a bad  
15 practice.

16 Certainly don't want to eat up our printing  
17 budget, but a couple of copies may not be a bad  
18 idea.

19 DIRECTOR JOHNSON: All right. That's noted.

20 The balance of the report, you'll see a copy  
21 of the time service procedure. The Board  
22 approved a policy with regard to time service a  
23 couple of months back. The staff took that  
24 policy, turned it into a procedure, shared it  
25 with the benefits advisement committee, which

1 also approved it. So it's just a copy for the  
2 Board. No action needs to be taken.

3 There's also an updated application for time  
4 service connection that's attached to that. And  
5 there are two sample news releases that we will  
6 be publishing shortly that describe for the Board  
7 some recent action, which it is aware of, but  
8 that we're going to begin in earnest to promote  
9 the activity of this Board as we go forward.

10 And so these are two samples of those  
11 soon-to-be-published releases. They have not yet  
12 been published.

13 The last thing you'll see is a copy of the  
14 proposed 2017 Meeting Schedule. It's the last  
15 page in the section under Executive Director's  
16 Report. And it follows the same pattern of our  
17 meetings as they were in 2016.

18 These have been presented to the advisory  
19 committee and to the FIAC. And if the chair  
20 would like, could we ask for a motion to approve  
21 this so we can publish it, or if you like, we can  
22 just delay it next month to give the Board some  
23 time to review it and you can call for a motion  
24 then so we can publish these dates.

25 MR. PATSY: My opinion is we go ahead and

1 publish this. It's in the same format as what  
2 we've had in the past. If any of the members  
3 have an issue forthcoming with any of the dates,  
4 then, you know, we can discuss it at a subsequent  
5 meeting.

6 MR. SCHEU: I move we adopt the calendar.

7 MR. BROWN: I second.

8 MR. PATSY: Any -- we've got a motion, we've  
9 got a second. Any discussion?

10 (No responses.)

11 MR. PATSY: All in favor?

12 (Responses of "aye.")

13 MR. PATSY: Opposed?

14 (No responses.)

15 MR. PATSY: Ayes haves it. Good.

16 DIRECTOR JOHNSON: At the end of the report,  
17 you'll see a written copy of our consultant, Beth  
18 McCague's report. It gives an update on all the  
19 projects that she's working on. Time flies. So  
20 you-all might note that her contract expires at  
21 the end of November. There was an extension of  
22 90 days. It was approved by the Board the first  
23 month I was here.

24 She's coming to an end. She's wrapping up  
25 her projects, which will be picked up by staff



1 when she leaves. But for the record, she's done  
2 a phenomenon job for me --

3 MR. BROWN: Yes.

4 MR. DARAGJATI: Absolutely.

5 DIRECTOR JOHNSON: -- and for the Board.

6 And I want to thank her for her service. She's  
7 just been a pleasure to work with and she'd done  
8 just a phenomenal job filling in the gap between  
9 executives.

10 MR. PATSY: Tim, she has done a phenomenal  
11 job.

12 DIRECTOR JOHNSON: Yes.

13 MR. PATSY: I know she's not here. So it  
14 may be appropriate to ask this. Are we going to  
15 do anything to recognize her for her service,  
16 either -- ideally at next month's meeting would  
17 be --

18 DIRECTOR JOHNSON: That would be great. We  
19 have some plans in mind. I can hear Debbie  
20 breathing next to me.

21 Do you want to tell them what the plans are,  
22 Debbie?

23 MS. MANNING: Well, we have a plaque that's  
24 ready today. If you wanted to present it to her  
25 today, we can call her into the meeting. It's up

1 to you if you want to wait until next month. But  
2 we have done a plaque similar to what we did for  
3 Schmitt when he left, thanking her for her  
4 service.

5 You know, we can certainly do more at the  
6 next meeting if you want to wait, but we do have  
7 it today. They went and picked it up. It wasn't  
8 ready until this morning, but it's here.

9 MR. PATSY: I mean, it would be nice if we  
10 had a full Board.

11 MS. MANNING: Okay. You want to wait until  
12 everybody's here?

13 MR. BROWN: We should be here all next  
14 month.

15 MS. MANNING: We hope so. Okay.

16 DIRECTOR JOHNSON: Very good.

17 MR. PATSY: Thank you.

18 DIRECTOR JOHNSON: Thank you, Mr. Chairman.  
19 That's the end of my report.

20 MR. BROWN: Can I ask a question about the  
21 CSO purchase of time?

22 DIRECTOR JOHNSON: Yes.

23 MR. BROWN: When CSOs come into the building  
24 to weigh whether or not it's worth it to purchase  
25 their time back, will they have any way of being

1           able to figure that out quickly, kind of a cost  
2           benefit analysis to buy the time back or not?

3           DIRECTOR JOHNSON: Yes. You know, we've  
4           been doing a lot more of that. We're going to do  
5           a lot more of that going forward.

6           You know, these benefits can be complicated,  
7           and it's not a one-size fits all. What makes  
8           sense for one member might not make sense to  
9           another.

10          MR. BROWN: Right.

11          DIRECTOR JOHNSON: Steve Lundy does an  
12          outstanding job, not only with this, the buy-back  
13          of time, but also in helping members understand  
14          the nuances of DROP. So, yes, to answer your  
15          question.

16          MR. BROWN: Okay. Good. Because I've had a  
17          number of questions asking me whether it's worth  
18          it, and I said, I don't -- you need to go get  
19          those numbers looked at and analyzed.

20          Some people have, you know, a lot of years  
21          to buy back, and then they want to see, if we  
22          continue to have the step raise plan that we  
23          have, you know, would it make sense for them to  
24          do it through time of inception.

25          DIRECTOR JOHNSON: Yes.

1 MR. BROWN: Okay.

2 DIRECTOR JOHNSON: Thank you for asking.

3 MR. PATSY: We're good?

4 DIRECTOR JOHNSON: Yes, sir.

5 MR. PATSY: Thank you, Tim.

6 Moving on to the next agenda item, counsel  
7 reports. Mr. Durden, Mr. Sawyer.

8 Good morning, John. Good to see you again.

9 MR. SAWYER: Good morning. Thank you.  
10 John Sawyer with the Office of General Counsel.

11 Just to provide some background for the  
12 Board, so Beth McCague's work in consultation  
13 with the Board in the city's procurement division  
14 launched the effort to hire new outside counsel,  
15 and she developed an RFP.

16 And, again, working with the Board and Jason  
17 Gabriel, they mailed the RFP to four qualified  
18 firms to gauge their interest in whether they  
19 want to submit a response.

20 Three of the four firms did submit a  
21 response. There were also some questions that  
22 were distributed among all of those. The close  
23 date was October 4.

24 On October 25, there was a scoring committee  
25 that met. All three firms were invited,

1 attended, all gave a presentation,  
2 question-and-answer period, and then there were  
3 five evaluators, and all evaluated all three  
4 firms.

5 After reviewing all the scores, the firm of  
6 Sugarman and Susskind was unanimously the number  
7 one score. Jason Gabriel was part of that  
8 evaluation committee. He certainly supports the  
9 will of the Board. He certainly supports the  
10 Board hiring the Sugarman and Susskind firm.

11 This was a more formalized process than it  
12 could have been, which is great. It's more  
13 inclusive. It was very formal. So Jason feels  
14 very good about the process that the Board  
15 undertook to select its next counsel.

16 At this point, if the will of the Board --  
17 you're certainly in a position, if you so choose,  
18 to go ahead and hire the firm. You can have the  
19 Board conduct more interviews, but it's entirely  
20 kind of in your court and it's teed up for you to  
21 handle in what manner you may so choose.

22 MR. PATSY: John, do you have a written  
23 synopsis of what you just talked about?

24 MR. SAWYER: I do. We mailed it late  
25 yesterday, but I don't believe it made it into

1 your Board book. So it's certainly available.

2 MR. PATSY: Okay. Good. So we have it for  
3 the record?

4 DIRECTOR JOHNSON: Yes, sir.

5 MR. PATSY: Okay. Thank you.

6 Anybody have any questions?

7 MR. BROWN: Yeah. I make a motion to hire  
8 that firm, Sugarman's firm, for our new outside  
9 counsel.

10 MR. SCHEU: I second.

11 MR. PATSY: We have a motion and we have a  
12 second. Any discussion?

13 MR. SCHEU: I would like to say Anna was  
14 part of that and Jason and Chris and me. And who  
15 was the fifth? Oh, Tim, I guess.

16 DIRECTOR JOHNSON: Oh, yeah, I was there.

17 MR. SCHEU: And Beth was there. It was --  
18 it was really obvious. I still remember Chris's  
19 comments, I know, who did the most questioning at  
20 first, but then at the end you just said it's  
21 without a doubt. And those were open to the  
22 public. I don't think anybody from the press  
23 came, but that was an opportunity to see a  
24 transparent way of selecting counsel. But nobody  
25 came. But it was a great experience and a

1 unanimous result.

2 And, Anna, from the perspective of the City  
3 Council, did you --

4 MS. BROSCHE: No. I appreciated the  
5 opportunity to be a part of it. I thought the  
6 interviews went well. I thought the questions  
7 were great too, those that came and took  
8 advantage of the opportunity to present to us and  
9 to try to win the business. And I'm pleased with  
10 the process and pleased with the outcome.

11 MR. PATSY: Okay. Any further discussion?

12 (No responses.)

13 MR. PATSY: So we have a motion and a  
14 second. We had discussion. All in favor"

15 (Responses of "aye.")

16 MR. PATSY: Opposed?

17 (No responses.)

18 MR. PATSY: We're good.

19 MR. SCHEU: Could we have a tag on to that?

20 For all the years of service, we formally  
21 thank Mr. Klausner's firm and Paul for their  
22 service to the fund. They have -- while there  
23 have been disagreements along the way among  
24 various constituencies, they did try to represent  
25 the fund with their full effort. And I think

1           they continue as counsel to you-all, do they not,  
2           Joey?

3           MR. GREIVE:   We -- well, not at this time.

4           MR. SCHEU:   Anyway, I would like to move  
5           that we thank you.

6           MR. PATSY:   Tim, clarify for me.  The  
7           agreement with Sugarman doesn't take place  
8           until --

9           DIRECTOR JOHNSON:  January 1, 2017.

10          MR. PATSY:   Paul, we'll still see you in  
11          December?

12          MR. DARAGJATI:  I'll be here until the end  
13          of the year.  I'm happy to serve the Board.

14          MR. PATSY:   Thank you.

15          And next up should be Paul's report.

16          MR. SCHEU:   That was a motion.

17          MR. BROWN:   And I will second that motion  
18          that we recognize the service they've given us.

19          MR. PATSY:   Thank you.  So we have a motion  
20          and a second to recognize the service from the  
21          Klausner firm.

22          All in favor?

23          (Responses of "aye.")

24          MR. PATSY:   Opposed?

25          (No responses.)



1 MR. PATSY: Thank you.

2 MR. DARAGJATI: Thank you, gentlemen.

3 My report this month is quite short.

4 As far as the securities litigation, the CVB  
5 Financial Corp case, as I reported last month,  
6 was successfully mediated. The parties have  
7 agreed on the settlement documents and submitted  
8 them to the court. They have not received  
9 approval by the court yet. When they do, we will  
10 submit them to the Board for the Board to review.  
11 But that is the only one that really had any  
12 action.

13 Plains All-American is still in a holding  
14 pattern through discovery.

15 The only other thing I have to report is I  
16 assisted -- Bob and I actually assisted Dan in  
17 the review of the Neuberger and the Loomis Sayles  
18 documents, which Dan will report probably within  
19 about two minutes.

20 I did want to bring something else up to the  
21 Board. Something came to my attention. I guess  
22 there was a police officer who was convicted in  
23 federal court --

24 MR. BROWN: Uh-huh.

25 MR. DARAGJATI: -- for using his police

1 powers to assist in some type of racketeering.  
2 That is a forfeitable offense. I'm guessing that  
3 it automatically goes to the advisory committee  
4 for forfeit?

5 MR. BROWN: Yeah. Is that on the next  
6 month's agenda for the advisory committee?

7 DIRECTOR JOHNSON: Yes, it is.

8 MR. DARAGJATI: Well, if the advisory  
9 committee needs my help with anything, I have a  
10 lot of experience prosecuting forfeitures in  
11 Miami.

12 To this police force's credit, it doesn't  
13 happen very often. We get a lot of it down  
14 south. So I'm here to assist if you need me.

15 MR. PATSY: My opinion on that is prior to  
16 asking the advisory committee, my experience is  
17 we've got to cross our T's, dot our I's, and make  
18 sure everything is done appropriately because the  
19 courts tend to side with the individual in those  
20 cases more often than not.

21 It's frustrating, you know. I can't say  
22 enough about how challenging it can be sometimes.  
23 I just want to make sure we get everything  
24 squared away.

25 MR. BROWN: I think, most importantly, just

1 the commitment to due process for him. I mean,  
2 he was found guilty by a jury of clearly an  
3 offense that qualifies for forfeited pension, but  
4 making sure that he gets the opportunity to  
5 present his side.

6 MR. PATSY: I don't disagree with any of  
7 that. I'm, you know, 100 percent in agreement.  
8 I just want to make sure.

9 MR. BROWN: Yeah. That's what I mean,  
10 making sure he has his chance to due process,  
11 make sure it's not neglected.

12 MR. DARAGJATI: That's all I have. Thank  
13 you.

14 MR. PATSY: Thank you, Paul. And I'm not  
15 even going to say anything about securities  
16 litigation and my opinion on it, okay?

17 (Laughter)

18 MR. PATSY: Next item. Mr. Holmes.  
19 Investment Consultant Report. Good year for  
20 2016.

21 MR. HOLMES: It was. It was.

22 So we have a number of things to cover this  
23 morning, and I'll start off with the -- let's  
24 see, the Investment Performance Report for the  
25 third quarter, which coincides with your fiscal

1 year, and that is the bigger part of the  
2 presentation.

3 In that presentation I will direct your  
4 attention first to the Executive Summary Section.  
5 That starts with page 4, just to touch on the  
6 economic and capital market backdrop for the  
7 fiscal year.

8 As you know, it was a fairly volatile fiscal  
9 year in the capital markets. On the equity side,  
10 we basically had a year or 12-month period of  
11 lackluster economic growth, Central Bank  
12 intervention across the world and volatility,  
13 especially in interest rates around the world.  
14 But at the same time, during that time period,  
15 especially in 2016, we saw a strong comeback in  
16 equity performance.

17 And as a result, a number of the asset  
18 classes that hurt performance in calendar year  
19 2015 lead performance for your fiscal year, and  
20 as a result, you had very strong performance on  
21 an absolute and relative basis due to that  
22 diversified exposure.

23 So as an example, domestic stocks, domestic  
24 large-cap stocks as measured by the S&P 500 were  
25 up over 15 percent. But international stock, and

1 especially your emerging markets stocks, were up  
2 more. Emerging markets stocks were up almost 17  
3 percent.

4 In addition to that, there was a good  
5 comeback in the energy MLP sector, up almost 13  
6 percent. And then diversified exposure in bonds  
7 also helped out. We saw that corporates led the  
8 way on the investment-grade side, and in  
9 spread-product side, or outside, we saw that  
10 emerging-market debt and high-yield bonds both  
11 had double digit returns.

12 So that is a quick economic backdrop and  
13 capital market backdrop. I'll direct your  
14 attention to page 12.

15 Looking at page 12, what we're looking at is  
16 basically asset allocation for the period ending  
17 September 30th.

18 First I'll note that at the end of the  
19 quarter and the end of the fiscal year, the  
20 market value of the portfolio, the total  
21 portfolio, was up to almost \$1.6 billion. It was  
22 one billion, five-hundred ninety-nine, a thousand  
23 two-hundred twenty six -- 0.226 in there --

24 MR. GREIVE: We know what you mean.

25 MR. HOLMES: -- you can see -- you know what

1 I mean. Call it 1,599.2. Bottom line is it was  
2 the highest market value you've had since the  
3 financial crash in 2008.

4 Looking at asset allocation, asset  
5 allocation was in line at the end of the quarter  
6 with investment policy. There remains  
7 approximately a 3 percent underweight in real  
8 estate. We'll talk about that going forward.

9 The rest of the asset classes had a slight  
10 overweight relative to target but in line with  
11 investment policy.

12 On page 13, it shows asset allocation in the  
13 various asset classes, and it shows the plans  
14 weighting in each of those compared to the public  
15 pension universe. So these are not returns.  
16 These are just weighting compared to the  
17 universe.

18 So what you'll see is that in domestic  
19 equity, you were slightly below median in weight.  
20 In international equity, you were above median in  
21 weight. That wound up being a driver of  
22 outperformance.

23 In fixed income, you were under weight -- in  
24 fixed income relative to the domestic public fund  
25 universe, and that helped out performance

1           tremendously.

2                     Right now there's still no significant  
3 international fixed income influence, but the  
4 median weight there is under 5 percent. So  
5 that's really not at issue.

6                     In the alternative space, that's where we've  
7 shown the MLPs, and we consider them in the real  
8 asset category. As you can see in real assets, a  
9 little bit below median, but that MLP exposure  
10 was the driver of performance.

11                    And then, finally, in real estate, the real  
12 estate has -- for this plan has traditionally  
13 been over median compared to other public pension  
14 funds, which has also been a very good driving  
15 force for long-term returns for the portfolio.

16                    So with that in mind, I'll ask you to turn  
17 to the next page, page 14.

18                    MR. PATSY: Dan, I have a question for you.  
19 On page 13, do you have a chart that shows how  
20 our performance in these respective buckets  
21 performed versus the universe?

22                    MR. HOLMES: It's on page 14, the next page.  
23 That's where I was headed.

24                    MR. PATSY: This is aggregate.

25                    MR. HOLMES: I'm sorry?

1 MR. PATSY: This is aggregate, isn't it?

2 MR. HOLMES: Oh, you're saying by -- yeah,  
3 that's --

4 MR. PATSY: US Equity, International Equity.

5 MR. HOLMES: Yes. They're located two  
6 places in the report, shown in the Executive  
7 Summary, the score card pages, and then it's also  
8 shown in the mini pages in the report.

9 MR. PATSY: Okay. But is it graphically  
10 like this?

11 MR. HOLMES: Yes.

12 MR. PATSY: Okay.

13 MR. HOLMES: But it's divided up -- it's not  
14 all one page. It's divided by asset class. So  
15 you have to go to each of the asset class  
16 sections.

17 MR. PATSY: Oh, so there's not a  
18 consolidated page --

19 MR. HOLMES: Not in the floating bar.

20 MR. PATSY: -- that shows this exact picture  
21 except performance as opposed to --

22 MR. HOLMES: Not summarized on one page with  
23 the floating bar charts.

24 MR. PATSY: Okay. Can you do that?

25 MR. HOLMES: No.



1 MR. PATSY: You can't?

2 MR. HOLMES: No, sir. It's -- it's  
3 limitation of the reporting system. I can  
4 check -- I can check to see if we can put it in  
5 the queue for an updated performance chart, but  
6 that's something that we don't definitely -- we  
7 can't control. That has to be developed by the  
8 universe data provider.

9 MR. PATSY: Well, it seems as though if you  
10 can get, you know, the allocation --

11 MR. HOLMES: I can --

12 MR. PATSY: -- you ought to be able to get  
13 the performance as well.

14 MR. HOLMES: I have the information. I  
15 can't -- I can't replicate this particular page,  
16 but I can create a chart that -- or a spreadsheet  
17 that shows what you're looking for.

18 MR. PATSY: That comes close?

19 MR. HOLMES: Yeah.

20 MR. PATSY: Okay.

21 MR. HOLMES: I mean, this is a vendor's  
22 public chart.

23 MR. PATSY: Right. You know, I always get  
24 sensitive when you bring up the alternative issue  
25 that we're underweight our peers and

1 alternatives. But we -- that has not been  
2 detrimental --

3 MR. HOLMES: No.

4 MR. PATSY: -- over the last several years.

5 MR. HOLMES: It has not.

6 MR. PATSY: So just because we're  
7 underweight alternatives, that's worked out well  
8 for us.

9 MR. HOLMES: As a matter of fact, what I  
10 said earlier was that the MLPs were added when  
11 you put those in there.

12 But let me do this. What I will do is I'll  
13 create using a spreadsheet what you're looking  
14 for.

15 MR. PATSY: That would be good. Thank you.

16 MR. HOLMES: Okay. Let me make note of  
17 that. Okay.

18 Looking at page 14, for the quarter you can  
19 see that the quarter was very strong. It was a  
20 good way to end the fiscal year. The return for  
21 the quarter was 4.4 percent, and the portfolio  
22 ranked in the 7 percentile of the public pension  
23 universe. So 1 being best, 100 being worse, you  
24 can see that the plan finished in the top decile  
25 for the quarter.

1           Of note for the quarter, all asset  
2 classes -- so by asset classes I'm talking about  
3 domestic equities, international equities, fixed  
4 income, MLPs, real estate, et cetera -- all asset  
5 classes outperformed their benchmark during the  
6 course of the quarter.

7           In addition to that, they were all  
8 essentially either at median or above compared to  
9 peer samples where peer samples are available.

10           But, more importantly, the fiscal year. So  
11 I'm very happy and pleased to report the return  
12 for the fiscal year. The fiscal year gross  
13 performance was 10.98. So essentially 11 percent  
14 return for the -- for the fiscal year. You  
15 ranked in the 13th percentile compared to public  
16 pension plans here in the US.

17           On a net-of-fees basis, that is a 10.48, so  
18 essentially 10 1/2 percent greater return on a  
19 net-of-fees basis. And then in addition to that,  
20 the return reported to the actuary, the  
21 money-weighted net return, was a flat 10 percent,  
22 10.0 percent. So all in all, a very good fiscal  
23 year for the plan.

24           So how did we get there? In terms of what  
25 was really driving performance, I'll just give

1 you the quick summary.

2 International equities on an absolute basis  
3 up over 12 percent and ranked in the top  
4 quartile, over 2 percent above the benchmark for  
5 international equities.

6 What led the way there was the emerging  
7 market exposure. And so we had emerging markets  
8 exposure through Acadian, the emerging markets  
9 manager, and we also had exposure through Baillie  
10 Gifford. And if you recall last year, Baillie  
11 Gifford was a manager that significantly  
12 underperformed due to their emerging markets  
13 exposure, especially with China. That turned  
14 around.

15 As a matter of fact, they came in, they  
16 visited with the investment advisory committee.  
17 So I mention that story just simply to point out  
18 the fact that there is cyclicity in active  
19 management, but having a long-term time frame and  
20 patience pays off. So --

21 MR. BROWN: And by long-term, you mean the  
22 typical five-year plan or --

23 MR. HOLMES: Well, in theory, what we should  
24 be doing is looking at the managers over a full  
25 market cycle --

1 MR. BROWN: Which is --

2 MR. HOLMES: -- from peak to bottom, back up  
3 to peak.

4 MR. BROWN: Okay.

5 MR. HOLMES: There's no -- there's no real  
6 good definite time frame for that. So in the  
7 investment policy, what we use is a rolling  
8 three-to-five-year time period. I don't want to  
9 let it go for three or five years. We're always  
10 looking at it, but we're looking at the trend  
11 relative to the benchmark computers, and if  
12 they're below both the benchmark and the peers  
13 over that time frame, then we're looking at what  
14 the issue is.

15 And then in addition to that, internally, if  
16 I see a one-year period where the manager is in  
17 the bottom quartile compared to peers, I want to  
18 know what's going on. There might be a very  
19 legitimate reason for that, but that's a cause  
20 for me for a little bit of heightened scrutiny,  
21 if you will.

22 MR. BROWN: Okay.

23 MR. HOLMES: Okay.

24 So the international portfolio was very  
25 additive to performance, as I mentioned. In the

1 fixed income portfolio, it was up almost 5 --  
2 it's called 5.7 percent. It outperformed the  
3 benchmark by over 50 basis points.

4 Again, the corporate exposure was the main  
5 driver of outperformance in that portfolio. In  
6 addition to that, especially you'll see it here  
7 in October, the bank debt exposure was helpful as  
8 well.

9 Real estate. On an absolute basis, the real  
10 estate portfolio was up 9.8 percent. It was a  
11 little bit below the benchmark, the benchmark  
12 being made up of other open-end real estate  
13 managers, if you will.

14 Principal did well. They outperformed. JP  
15 Morgan lagged a little bit, and that's what drew  
16 that composite down. It was under by a quarter  
17 of a percent relative to the benchmark.

18 The MLPs, up 14 1/2 percent. So, again, I  
19 know that you withstood a lot of pain and  
20 scrutiny and commentary during 2015, the last  
21 fiscal year. That portfolio was up, like I said,  
22 14 1/2 percent. It outperformed the benchmark by  
23 over 4 percent for the fiscal year. It ranked in  
24 the 35 percentile.

25 So the managers there are performing well.

1 Active management tends to outperform the passive  
2 exposure in that segment, and having that  
3 patience really paid off.

4 I intentionally skipped the domestic equity  
5 portfolio. I'm going to come back to it right  
6 now.

7 The domestic equity portfolio was the  
8 largest add-in composite for the fiscal year. It  
9 was up approximately 13 1/2 percent. However, it  
10 was the only composite that really underperformed  
11 the benchmark. It was under the benchmark by  
12 about 1 1/2 percent.

13 During this time period, we had  
14 underperformance principally from two managers,  
15 two large-cap managers, both Brown and Eagle.  
16 Eagle, owns a large-cap side, came primarily in  
17 the first quarter of 2016. They had significant  
18 underperformance during that quarter because they  
19 run a concentrated portfolio with approximately  
20 25 to 35 stocks.

21 In addition to that, they had about 3 1/2  
22 percent weight in the portfolio to Valiant, which  
23 we no longer perform significantly. It was down  
24 over 80 percent during the course of the first  
25 quarter. They have since sold that portfolio

1 holding off.

2 But the good news is, and you'll see here in  
3 October, over the last three months they've  
4 picked up over 3 percent relative to the  
5 benchmark. And then long term, you'll also see  
6 here shortly that long term, they continue to be  
7 a good manager.

8 So that was a little bit of a drag over the  
9 short time period. Brown is an issue that we  
10 continue to discuss, not just with your plan, but  
11 also with the city's plan. And we're developing  
12 a plan with the Financial Investment Advisory  
13 Committee to deal with either replacing or  
14 restructuring that part of the portfolio.

15 So I saved that to the end, but, again, on  
16 an absolute basis, it was up fairly  
17 significantly.

18 That's the brief, kind of 10,000-foot review  
19 of the fiscal year returns. Let me see if  
20 there's any questions.

21 MR. PATSY: Dan, any insight into how these  
22 US equity managers have performed in the new  
23 fiscal year thus far? I mean, we've had a pretty  
24 good run-up over the last ten days.

25 MR. HOLMES: Yeah. So while the fiscal year



1 is a month --

2 MR. PATSY: I know. I got it.

3 MR. HOLMES: Yeah. But both Eagle and Brown  
4 are ahead for the month, ahead of their  
5 respective benchmarks, and they're also ahead for  
6 the last three months as well.

7 So we can -- as you would like, we can get  
8 into more of the issues as time permits, but I'll  
9 leave it there for now.

10 MR. PATSY: Okay. It's just -- you know, I  
11 look at some of the managers that we have in our  
12 portfolio, and we start talking about performance  
13 as of September 30th. Based on what's happened  
14 over the last ten days, that's ancient history.

15 MR. HOLMES: And so is giving us an added  
16 agenda of looking at what -- basically what a  
17 platform of policies might look like and how they  
18 would affect our capital market assumptions. So  
19 we're looking at that.

20 MR. PATSY: Okay. That's good.

21 MR. BROWN: How about Sawgrass for the  
22 fiscal year?

23 MR. HOLMES: They underperformed for the  
24 fiscal year, not to the degree that Brown did,  
25 but they're under a little bit. And so what

1       you'll see is that Sawgrass over the long --  
2       well, since the session time period, which,  
3       again, has been less than three years, both  
4       managers are under the benchmark. Sawgrass, less  
5       than 1 percent, and Brown by over 2 percent.

6               They both have -- but Sawgrass, again, is  
7       above median compared to their peers. One is  
8       Brown is a more concentrated portfolio. They're  
9       a sustainable growth manager. They're looking  
10      for companies growing earnings at least 14  
11      percent or greater.

12             The challenge for them has been that the  
13      market, in the beginning, especially in the  
14      beginning of the year, has really rotated back  
15      around to where it was pre-2015, where it was  
16      emphasizing high-dividend paying companies in  
17      more defensive sectors, which was a drag -- or a  
18      wind in their face, if you will.

19             That reversed in 2015 with the termination  
20      of quantitative easing, the third round. As a  
21      result, they've picked up performance in 2015.  
22      But, again, it reversed first quarter of this  
23      year.

24             This latest three months, it started to kind  
25      of reverse back, if you will, and that's when we

1 saw their performance start to pick up relative  
2 to the benchmark.

3 Sawgrass is different. Sawgrass is less of  
4 a growth portfolio, more kind of high quality.  
5 They're a little bit more what I call growth at a  
6 reasonable price or more towards the index. They  
7 will -- they tend to perform better than the  
8 benchmark when the benchmark goes negative. They  
9 tend to protect on the down side.

10 And so in this year, really since March, the  
11 market has basically gone straight up, and  
12 they've lagged in that type of environment.

13 Okay. If there's no other questions, I'll  
14 leave it at that, and we'll move to the next  
15 agenda item, being the Flash Report for October  
16 31st.

17 Looking at the Flash Report, we'll note that  
18 asset allocation remains in line with investment  
19 policy. The --

20 MR. PATSY: What page is that?

21 MR. BROWN: It's actually quite a bit  
22 towards the back.

23 MR. GREIVE: Yeah. It's two-thirds of the  
24 way through the -- it's right after page 104.

25 MR. PATSY: Thank you.

1 MR. HOLMES: So the -- let me know when  
2 everybody is there.

3 So as I mentioned, asset allocation remains  
4 in line with investment policy. The total market  
5 value was, again, over \$1.5 billion.

6 As you flip to page 2, we show performance  
7 for the -- for the month. So the -- well,  
8 performance for the month of October, the total  
9 portfolio was down 1.1 percent.

10 In the next agenda item, you'll see the  
11 capital markets. So basically all equity markets  
12 were down for the month. So it's not surprising  
13 that performance was down a little bit, down,  
14 like I said, 1.1 percent. It outperformed the  
15 policy index by 42 basis points. The net return  
16 is the same, 1.1 percent.

17 And as I noted just previously, Eagle and  
18 Brown have outperformed during that time period  
19 over not just the one but the three-month time  
20 period.

21 We also note that Wedge was funded. The  
22 market has been down since Wedge was funded and  
23 they remain flat. So they have protected  
24 capital.

25 The last thing I'll note is that if you look

1 at the month, the portfolio, all asset classes  
2 have outperformed their respective benchmarks.

3 You'll note that real estate, the benchmark  
4 does not have a return. It's just showing as  
5 zero because the benchmark is not priced monthly.  
6 And so we just show a positive 63 basis points  
7 for the month for the real estate portfolio.

8 So the bottom line, as we've seen in the  
9 past, the portfolio implementation tends to be a  
10 little bit more protective on the down side, and  
11 as a result, the -- you're better than the  
12 benchmark over that one-month period.

13 So that's really -- that's really the  
14 take-away from the Flash Report.

15 Forgive me. I just -- I failed to mention  
16 in the Quarterly Report, it was so concentrated  
17 since this was a fiscal year-to-date time period,  
18 I neglected to point out that even though we had  
19 a significant drawdown in 2015, the long-term  
20 performance for the plan as a whole remains  
21 really competitive.

22 You know, we look at performance over all  
23 the trailing periods. The convention is the  
24 report stops at the last ten years. But the  
25 bottom line is compared to peers, the plan is at

1 median or above for the three through the  
2 ten-year time periods that we're showing.

3 So, for instance, the last five years, it  
4 was in the top quartile, over 10 percent. Last  
5 seven years, it was in the 30th percentile. And  
6 so I forgot to point out that not just the fiscal  
7 year, but longer-term performance remains  
8 competitive on an absolute basis. And also, more  
9 importantly, or just as importantly, rather,  
10 relative to peers. So I apologize for neglecting  
11 that. So that's performance for those two  
12 periods.

13 The Flash Report -- I'm sorry, the Monthly  
14 Economic and Capital Market Update is the next  
15 report. I've kind of alluded to it, but the  
16 take-away for the month of October is basically  
17 that we saw increased volatility in the financial  
18 markets with uncertainty leading up to elections.

19 So we saw basically all equity markets, both  
20 US and non-US trade off. The S&P was down almost  
21 2 percent. Emerging markets were the only -- or  
22 the only equity benchmark that remained positive.  
23 It was up 20 basis points.

24 Small-cap stocks were down even more than  
25 large cap, almost 5 percent negative. So it was

1 a fairly volatile period. You've heard the  
2 adage, the market doesn't like uncertainty, and  
3 obviously leading into the elections, there was a  
4 lot of uncertainty.

5 In addition to that, on the fixed income  
6 side, the market was basically pricing in a 70  
7 percent likelihood that the fed was going to  
8 raise rates in December.

9 By the way, post-election, that is now 85  
10 percent. And a part of the reason there is we  
11 basically saw GDP grow at a 2.9 percent real  
12 annualized rate for the third quarter. So a  
13 significant turnaround from the previous quarter.

14 We saw inventory restocking and personal  
15 consumption really drive that number.

16 The PMI index remains over 50 percent, so  
17 that continues to show that the economy is in  
18 expansionary mode. But that's -- and then also  
19 we saw there was job growth, and also the wage  
20 rates for the last 12 months ending in October,  
21 wages were up 2.8 percent.

22 So all that solidifies the notion that the  
23 fed will raise rates in December.

24 And so I mentioned that equities, by and  
25 large, with the exception of emerging markets,

1           were negative for that time period. And because  
2           of rising rates, bonds were negative. So there  
3           was really no place to escape other than real  
4           estate, and to a lesser degree, emerging markets  
5           during that time period. Okay?

6           So that's how your fiscal year started off.

7           Now, as you mentioned, the last ten days,  
8           that's turned around, and so I look forward to  
9           reporting here at the end of November.

10          MR. BROWN: And has there been discussion  
11          at Summit on the impact of Trump's election? I  
12          know that the dollar strengthened to a 13-year  
13          high since he was elected. And I don't know --  
14          in anticipation of his fiscal policies, I know  
15          it's probably too early to comment and we'll get  
16          a good discussion next month, but what discussion  
17          has been going on with you guys about any asset  
18          redistribution or any strategy going forward with  
19          his presidency pending?

20          MR. HOLMES: Yeah. We've had substantial  
21          discussion the morning after. There was  
22          substantial discussion. There continues to be  
23          substantial discussion. We're looking at how it  
24          might affect our capital market assumptions.  
25          We're also looking at how we identify -- or in



1 terms of trends that we've identified.

2 So, for instance, going into -- going into  
3 the election, a number of trends that we've  
4 identified for discussion have been a lot of the  
5 headwinds against growth, global economic growth,  
6 especially US growth. Some of those headwinds  
7 include demographics and some are a little bit  
8 more policy related.

9 So we're looking at what some of the policy  
10 platform -- and, again, what we're trying to do  
11 is separate the policy platform from the personal  
12 side of things, although I will circle back --  
13 I'll say right now, the personal side of things  
14 still plays a role because Congress has to enact  
15 a number of the platform measures, and to the  
16 extent that there is an acrimonious relationship  
17 between the president-elect and Congress  
18 remains -- you know, how that plays out remains  
19 to be seen.

20 But by and large, a number of things that  
21 have been proposed in terms of infrastructure  
22 spending, defense spending, cutting of taxes are  
23 fairly positive for US growth.

24 On the other hand, how we pay for it in  
25 terms will probably expand the deficit. You

1 know, there will be more deficit spending. On  
2 top of that, what we're looking at is what the  
3 effect is on the dollar, whether it will continue  
4 to strengthen or weaken, especially relative to  
5 emerging market currencies, the effect on  
6 exports.

7 The exports are a very important part of our  
8 economy. If we renegotiate NAFTA or other trade  
9 agreements, what's the effect? Is it positive or  
10 negative? The renegotiations may be more form  
11 than substance, and so there may not be any  
12 effect. On the other hand, if they're completely  
13 abandoned, there may be a significant effect.

14 So at this point, the same way we kind of  
15 talked about Brexit, you know, you saw the market  
16 trade off and then recover a couple days after  
17 Brexit. Same thing here. You saw the market go  
18 down and start to recover, and it's -- you know,  
19 there was a little bit of a bounce there. It's  
20 kind of moderating a little bit.

21 The bottom line is, these are going to be  
22 themes that develop over the next few months.  
23 And so I anticipate coming back in the beginning  
24 of the year with a game plan in mind.

25 MR. BROWN: Knowing that he's mentioned many

1 day-one policies he's going to enact, I would  
2 imagine that would probably be something to look  
3 at. Is -- January, is that when the inauguration  
4 is? So January.

5 MR. HOLMES: Right.

6 MR. BROWN: No telling what kind of  
7 volatility that's going to bring and uncertainty  
8 about what in the world he's going to do the  
9 first day.

10 MR. HOLMES: Well, we have a substantial  
11 number of health care providers. I can tell you  
12 that the major hospital systems are a little  
13 worried because the big hospital systems, the  
14 Affordable Care Act has been very good for their  
15 HMO and their insurance business in general. And  
16 it's also caused a lot of consolidation in the  
17 health care industry.

18 Depending on how that is either renegotiated  
19 or how it's reformed kind of remains to be seen.  
20 That's a significant part of the economy.

21 But on the other hand, there could be some  
22 positive things. Repatriation of profits held  
23 overseas. If they receive a lighter tax rate, it  
24 could prove beneficial to offset some of the tax  
25 cuts here. So, again, it has to get passed

1 first.

2 MR. BROWN: True.

3 MR. GREIVE: Our banks and our energy  
4 investments certainly were very happy --

5 MR. BROWN: Yeah.

6 MR. HOLMES: They were.

7 MR. GREIVE: -- the first few weeks after  
8 the election.

9 MR. PATSY: They were. And so, I mean,  
10 there's a lot in play.

11 MR. BROWN: A lot of moving parts.

12 MR. PATSY: I'm sorry?

13 MR. BROWN: A lot of moving parts involved.

14 MR. HOLMES: There are. There are.

15 So we've covered those first -- the first  
16 one, two, three agenda items.

17 What I'll direct your attention to now are  
18 the investment guidelines for Neuberger Berman  
19 and Loomis Sayles.

20 MR. PATSY: Clarify for me why we're  
21 discussing the Neuberger Berman guidelines,  
22 because I thought this was a collective trust.

23 MR. HOLMES: It is.

24 MR. PATSY: So . . .

25 MR. HOLMES: Because the investment policy

1 says that when -- to summarize, when we go  
2 outside of the investment grade market in fixed  
3 income, a number of types of securities have to  
4 be specifically permitted by the Board.

5 MR. PATSY: Okay.

6 MR. HOLMES: And so what I want to do is use  
7 a belt-and-suspenders approach.

8 MR. PATSY: So this is not direction for  
9 Neuberger Berman. This is to clarify our policy.

10 MR. HOLMES: It's basically we're following  
11 the plan's policy in hiring Neuberger Berman,  
12 basically a procedural issue that we have to go  
13 through or the Board has to go through in order  
14 to hire Neuberger Berman.

15 MR. PATSY: Okay. So let me rephrase that.  
16 So this is for our benefit as opposed to  
17 Neuberger Berman's? They don't have to approve  
18 these?

19 MR. HOLMES: No, no, no. Neuberger Berman  
20 has these guidelines in place --

21 MR. PATSY: Right.

22 MR. HOLMES: -- and we recognize that those  
23 guidelines are in place. So I'll describe what I  
24 mean here, if that's okay.

25 MR. PATSY: Okay.

1 MR. HOLMES: So with regard to Neuberger  
2 Berman, Neuberger Berman is a collective trust,  
3 and as a collective trust, the Board cannot  
4 adjust the guidelines. So you hired Neuberger  
5 Berman for their particular investment style and  
6 their particular investment product.

7 What I wanted to do was basically bring to  
8 the Board's attention what their internal  
9 guidelines are, what we've set out for in terms  
10 of expectations, and basically solidifies what  
11 the benchmark is.

12 But within their -- within these investment  
13 manager instructions, there's an Attachment A,  
14 which is basically their internal investment  
15 guidelines.

16 MR. SCHEU: I don't know where that is.

17 MR. BROWN: That's in the book. It's just  
18 after the capital market report.

19 MR. SCHEU: Okay.

20 MR. BROWN: So it's the fourth report.

21 MR. SCHEU: Is it before Eagle?

22 MR. BROWN: Yes.

23 MR. SCHEU: Okay. I got it.

24 MR. HOLMES: And so looking at their  
25 investment guidelines -- again, this is Neuberger

1 Berman -- we're pointing out that it's primarily  
2 a domestic fixed-income portfolio actively  
3 managed in the core-plus fixed income style.  
4 We're expecting a net-of-fees return of at least  
5 50 basis points above the benchmark, the  
6 benchmark being the aggregate bond index, the  
7 market's aggregate bond index.

8 We're also stating that it's managed  
9 according to the trust's investment guidelines,  
10 and we're noting the fact that since this is a  
11 core-plus mandate, the plus sectors will be  
12 primarily high-yield bonds, non-dollar bonds and  
13 emerging market debt to be weighted at their  
14 discretion. But also you'll note that they have  
15 their own restrictions within the commingled  
16 trust as to how much they can have in each  
17 sector, each industry weighting, et cetera.

18 So I'm bringing that more to the Board's  
19 attention than anything else.

20 Chris, you have a question?

21 MR. BROWN: Yes. We're classifying them as  
22 domestic, but they do have an international  
23 component to that portfolio?

24 MR. HOLMES: Yeah. I note, it say  
25 "primarily." Yeah. Because the majority of the

1 bonds they hold would be primarily US bonds.

2 MR. PATSY: Some of these say up to 30  
3 percent, some allocation, but practically  
4 speaking, they may not exceed 10 based on the way  
5 the manager manages the portfolio.

6 MR. HOLMES: And, also, I just want to make  
7 note of this for the record. As you know, the  
8 investment-related statutes that apply to this  
9 plan are fairly detailed, to put it politely.

10 I went through with Neuberger Berman and  
11 Loomis every single permitted security that they  
12 have in their investment guidelines and made the  
13 manager cite back to the statute. They were not  
14 happy about doing this, and this is part of the  
15 reason why it took a while to negotiate these.

16 But I didn't want to wake up and find that  
17 the manager was holding security that was not  
18 permitted under the statute. And like I said,  
19 the statutes are kind of -- it takes time to go  
20 through the statutes. You've seen how they're  
21 written.

22 And so I made the managers go back through  
23 and prove to me where every eligible investment  
24 was contained in the statute. And so we did  
25 that. I just want to make sure the Board knew



1           that.

2           So those are the Neuberger Berman investment  
3 guidelines. These will be attached to the  
4 investment management contract. Let me stop  
5 there.

6           Paul, anything that I missed or any comments  
7 on Neuberger's contract or anything?

8           MR. DARAGJATI: No, you've covered  
9 everything.

10           Just for the record, I would say that the  
11 statute Dan is referring to is Section 215, I  
12 believe, .47.

13           THE REPORTER: Say that again.

14           MR. DARAGJATI: 215.47 is the Florida  
15 statute that addresses everything that Dan was  
16 just talking about and goes into fine detail as  
17 to what is a permitted investment for these  
18 trusts.

19           MR. HOLMES: The second set of guidelines  
20 are those for Loomis Sayles. And I apologize.

21           Debbie, was there a separate pass-out or --

22           MS. MANNING: Yes, yes. Everyone should  
23 have a separate pass-out.

24           MR. HOLMES: There's a separate pass-out  
25 outside of the book because two days ago Loomis

1           came back to me with some slight edits. So I  
2 apologize that they . . .

3           So, first, let me refer to the edits. In  
4 the first paragraph --

5           MR. BROWN: Sorry, Dan.

6           MR. HOLMES: No, that's okay.

7           In the first paragraph, the end of the first  
8 line, the "A" was struck. I guess it was -- they  
9 preferred it grammatically.

10           Under the Guidelines in Section B, the word  
11 "domiciled" was inserted between "foreign" and  
12 "issuers." So they wanted to be clear by what we  
13 meant by domiciled.

14           And then the third edit is shown on the  
15 second page under their Diversification  
16 Guidelines. We removed the permissibility of  
17 using structured notes. That basically made it a  
18 little bit more of a conservative portfolio.

19           And so other than that, those are the other  
20 edits as compared to the form that is in the  
21 Board book. Okay? And, again, I apologize for  
22 that.

23           Now --

24           MR. PATSY: Is that part of the statute?

25           MR. HOLMES: Yes. Yeah. It was unclear.

1 MR. PATSY: So Yankee bonds --

2 MR. HOLMES: Are permissible.

3 MR. PATSY: -- fall into that bucket of  
4 problem, or could be a problem with --

5 MR. HOLMES: No. Yankee bonds are permitted  
6 under the statute.

7 MR. PATSY: Well, foreign domiciled issuer  
8 who issues in the US market in dollar denominated  
9 securities, that's a Yankee Bond.

10 MR. HOLMES: And they're permitted.

11 MR. PATSY: Okay. So I'm a little confused.

12 MR. HOLMES: It was the structured notes is  
13 what we took out.

14 MR. PATSY: Okay. Well, I was -- going back  
15 to the domicile issue, maximum 30 percent market  
16 value of Yankee Bonds --

17 MR. HOLMES: That's their own internal  
18 restriction.

19 MR. PATSY: Right, right. But how does  
20 that -- what I heard you say is, foreign domicile  
21 issuers can be an issue for our statutes if that  
22 number -- I forget what the limit is, if it gets  
23 to that. Do you see what I'm asking?

24 MR. HOLMES: So what they wanted to do was  
25 define what we meant by foreign. And so they

1           were -- they considered, for instance, Canadian  
2           Bonds to be quasi-domestic, and the statute does  
3           not interpret that way. Foreign mean foreign  
4           domicile.

5           MR. PATSY: Right, right.

6           MR. HOLMES: And so to be clear, we inserted  
7           the word "domiciled" in there to define what we  
8           and the statute mean by foreign. So it's an  
9           issuer located outside the United States.

10          MR. PATSY: Right. So if they go up to the  
11          maximum of 30 percent Yankee Bonds, and they have  
12          a hundred million in their allocation -- I'm just  
13          using a number off the top of my head -- it gives  
14          them 30 million in --

15          MR. HOLMES: In Yankees.

16          MR. PATSY: -- in non-US issuers, non --  
17          what's the term we use? Foreign domicile  
18          issuers.

19          Is that going to be -- could that  
20          potentially be a problem for us with the statute?

21          MR. HOLMES: Yeah. I see what you're  
22          saying. The answer is no, because the statute  
23          makes an exception in the definition where the  
24          bonds are traded on US exchanges and denominated  
25          in dollars.

1 MR. PATSY: Okay.

2 MR. HOLMES: And that's what Yankee Bonds  
3 are.

4 MR. PATSY: Right.

5 MR. HOLMES: So the Yankee Bonds do not  
6 count against the 25 percent foreign corporate  
7 exposure at the plan level.

8 MR. BROWN: Because they're traded on US  
9 soil.

10 MR. HOLMES: And they're denominated in  
11 dollars. Yeah. So there's a specific part of  
12 that section in that part of the statute that  
13 says, "except for."

14 MR. BROWN: Thank you for poring over the  
15 statute. I appreciate that. I can't imagine  
16 doing that.

17 MR. HOLMES: I'm starting to see it in my  
18 sleep now, Section 1 through 6, 11, 9, the  
19 subparagraphs.

20 MR. GREIVE: I've read them.

21 MR. HOLMES: Joey and I have had a lot of  
22 discussion about that.

23 MR. GREIVE: The Board is fortunate that  
24 your investment consultant is also a JD.

25 MR. BROWN: Oh, very good.

1 MR. HOLMES: Thank you.

2 So I am pointing out -- also pointing out  
3 the fact that unlike Neuberger Berman, this is a  
4 separate account. And so the Board specifically  
5 has to adopt these investment guidelines.

6 So, Mr. Patsy, you are familiar with Loomis.  
7 You've seen them in other portfolios. This is  
8 the full discretion product. This was approved  
9 by the Board and the Financial Investment  
10 Advisory Committee. We took the full discretion  
11 product and we toned down or brought in the  
12 investment guidelines to conform with the  
13 statute.

14 MR. PATSY: Okay.

15 MR. HOLMES: Okay? And so what you're  
16 seeing here is what's left after making it  
17 conform to the statutes. So it's a little bit  
18 more conservative than their full-blown,  
19 full-discretion guidelines. But at the same  
20 time, you have no choice. You have to basically  
21 stay within the statute.

22 MR. PATSY: How different are these from the  
23 full-discretion normal guidelines?

24 MR. HOLMES: We removed the permission to  
25 use derivatives --

1 MR. PATSY: Okay.

2 MR. HOLMES: -- so you'll be using cash  
3 bonds. Made that a little bit more conservative.  
4 We took out structured notes. And they also  
5 tailored some of the maximums on some of the  
6 industry and sector exposures to make sure that  
7 they were kind of within. But by and large, not  
8 too much.

9 MR. PATSY: Okay. Thank you.

10 MR. HOLMES: Okay? So I don't think it will  
11 stand in the way of them adding value over the  
12 benchmark on a net-of-fees basis.

13 MR. PATSY: Okay. That's fair.

14 MR. HOLMES: Okay.

15 So hopefully you've all had a chance to read  
16 them, but I will take questions, but I'll also  
17 end with also I will recommend to the Board that  
18 the Board adopt both these guidelines.

19 MR. PATSY: Dan, I apologize. You said this  
20 and I might have missed it.

21 But if you look at page 1, under Eligible  
22 Investments, you have Structured Notes under Bank  
23 Loans. And I thought I heard you say --

24 MR. HOLMES: Oh, thank you. They were  
25 supposed to remove that and they did not.

1 MR. GREIVE: Stricken from page 2 but not  
2 from page 1.

3 MR. HOLMES: Yeah. They only struck it in  
4 the one spot.

5 MR. PATSY: So we need to adopt both of  
6 these?

7 MR. HOLMES: Yes.

8 MR. PATSY: Okay. So we need a motion.

9 MR. BROWN: I'll make a motion to adopt both  
10 of those.

11 MR. PATSY: Both of them. Can we do both at  
12 one time or do we need to do them individually?

13 MR. DARAGJATI: It may be better procedure  
14 to do it one at a time.

15 MR. PATSY: Okay. Why don't we do  
16 Neuberger.

17 MR. BROWN: I make a motion to adopt  
18 Neuberger.

19 MR. SCHEU: Second.

20 MR. PATSY: We have a motion and a second.  
21 Any discussion?

22 (No responses.)

23 MR. PATSY: No further discussion, all in  
24 favor?

25 (Responses of "aye.")



1 MR. PATSY: Opposed?

2 (No responses.)

3 MR. PATSY: Ayes have it.

4 MR. BROWN: I make a motion to adopt the  
5 investment management instructions for Loomis.

6 MR. SCHEU: Second.

7 MR. PATSY: Okay. We have a motion and a  
8 second. Any further discussion?

9 (No responses.)

10 MR. SCHEU: I appreciate the thoroughness of  
11 mentioning the statutes.

12 MR. HOLMES: Thanks. I appreciate the  
13 patience. It was -- as you read the statutes,  
14 you know what I mean.

15 MR. BROWN: I can't imagine. Yeah. From a  
16 criminal law perspective, it's already chaotic  
17 enough. I can't imagine having to go through  
18 financial statutes.

19 MR. DARAGJATI: And if I could also jump in  
20 and say the fact that Dan is an attorney has cut  
21 down on your attorney's fees.

22 MR. BROWN: Yeah.

23 MR. DARAGJATI: Seriously. I mean, if Dan  
24 wasn't an attorney and wasn't able to analyze  
25 these statutes the way he's able to do, it would

1           have fell upon us to do the entire analysis;  
2           whereas, he's about to really pare down what  
3           needs to be analyzed and then give it to us. So  
4           you clearly have an asset here.

5           MR. BROWN: Thank you very much, Dan.

6           MR. SCHEU: Yes, thank you.

7           MR. HOLMES: You're kind to say that. Thank  
8           you. It gives John and I have a lot to talk  
9           about.

10          MR. GREIVE: Trustee Brown, your motion was  
11          as amended, correct?

12          MR. BROWN: Good point --

13          MR. SCHEU: So we haven't amended it. It's  
14          just as it's been presented to us.

15          MR. GREIVE: Just a scrivener's -- there's  
16          one.

17          MR. BROWN: There is one attached.  
18          Obviously the motion is for the amended  
19          instructions of Loomis.

20          MR. HOLMES: Okay.

21          MR. SCHEU: Including the deletion of  
22          Structured Notes.

23          MR. HOLMES: Correct. Okay.

24          MR. PATSY: Is there any further discussion?

25          (No responses.)

1 MR. PATSY: We have a motion. We have a  
2 second. All in favor?

3 (Responses of "aye.")

4 MR. PATSY: Opposed?

5 (No responses.)

6 MR. PATSY: Ayes have it. We're good.

7 MR. HOLMES: Thank you very much.

8 So to update the Board where we are in the  
9 process, I will work with the system, with the  
10 plan, to get the custodian accounts open. We  
11 are, I think, fairly close to being finished with  
12 the documents, and I'll work with Tim to get the  
13 documents filled out. And then I will come back  
14 and recommend funding at the December meeting.

15 MR. PATSY: Okay. Eagle and Brown. And  
16 we've got to go through the FIAC review first.

17 MR. HOLMES: Yes. And, Mr. Johnson --

18 DIRECTOR JOHNSON: I would prefer to do  
19 that. We did not have a quorum at the November  
20 FIAC. So Dan was prepared to present, but there  
21 was not a quorum to accept the report. So we're  
22 going to move that on to the December FIAC, and  
23 this Board will see in December the  
24 recommendation that comes from that committee.

25 MR. SCHEU: Did you determine yet whether we

1 can -- under our charter as amended by the  
2 council, the fact that they're not able to act?  
3 We did discuss it, but we nevertheless -- do we  
4 have to get a recommendation from them?

5 DIRECTOR JOHNSON: I haven't delved into  
6 that, but Paul is here. I mean, we can discuss  
7 it now if you would like.

8 MR. SCHEU: No. I just wanted to -- Paul,  
9 going forward, or with Steve, going -- whoever is  
10 going to be representing us, do we have to wait  
11 to adopt something to get a recommendation from  
12 the FIAC where they met but didn't have a quorum,  
13 and I think particularly times when we need -- we  
14 can't afford to wait because the market might be  
15 detrimental? Because now we're going to have to  
16 wait a whole month, and merely because -- I think  
17 there were four people there and there was even  
18 an issue as to whether there was a quorum. There  
19 might have been.

20 DIRECTOR JOHNSON: It wasn't a quorum.

21 MR. SCHEU: It was not a quorum.

22 DIRECTOR JOHNSON: It was not a quorum.

23 MR. BROWN: So, Paul, I guess the question,  
24 the word "advisory" in either one of those  
25 committees, does it make it to where we have to

1 wait for them to make a recommendation?

2 MR. DARAGJATI: I'm not aware of anything in  
3 the statute that says the Board shall consider  
4 the opinion of the advisory board. It's not  
5 mandatory.

6 MR. SCHEU: That may not be the statute.  
7 That may be in the legislature that the council  
8 adopted.

9 MR. GREIVE: With the attached agreement.

10 DIRECTOR JOHNSON: Do you want to look into  
11 that and come back next month and talk about it?

12 MR. DURDEN: Sure.

13 MR. SCHEU: But I'm happy to wait, but I  
14 just think we need to -- going forward as a  
15 governance issue, we need to know that.

16 MR. BROWN: And it gives us an opportunity  
17 to hear Steve next month. So that's very good.

18 (Laughter)

19 MR. PATSY: Okay. So this will be on the  
20 agenda for December's meeting, if we have a  
21 quorum from the FIAC next month.

22 MR. SCHEU: Just so I'm clear on the form,  
23 so you-all did determine that the chairman is not  
24 included within the computation of the quorum,  
25 even though the chairman is a voting?

1           DIRECTOR JOHNSON: That's how the FIAC  
2 treated it in November.

3           MR. SCHEU: That's what I mean. So that's  
4 part of it, is, what is a quorum for the FIAC?  
5 Because they had a quorum when total numbers were  
6 considered, what you explained to me, but they  
7 didn't because the chairman said he wasn't  
8 included in the math. But that seems strange to  
9 me.

10          MR. BROWN: That is strange.

11          MR. SCHEU: I think we need some legal --  
12 they need some legal advice on that too.

13          MR. DURDEN: Certainly without seeing  
14 something that says otherwise, the quorum clearly  
15 includes all members, including the chair.

16          MR. SCHEU: That's what I thought.

17          MR. DURDEN: But I'll look, just to see. I  
18 mean, it's possible that there's -- I don't think  
19 that in creating that Board, there is anything to  
20 suggest that the quorum rules would be different.  
21 The fallback in any organization would be a  
22 quorum is a majority of the membership.

23                 So if the chair is a member, then that's a  
24 majority. I mean, I'll look to make sure.

25          MR. SCHEU: Okay. That just seemed a

1 strange way.

2 DIRECTOR JOHNSON: Just so we're clear for  
3 the record, Craig and Brian were in attendance.  
4 Craig being the secretary, Brian being the  
5 chairman. Rodney was not there and --

6 MS. MANNING: Kowkabany was not there.

7 MR. HOLMES: Bob was not there.

8 DIRECTOR JOHNSON: Yes. And Bob was not  
9 there.

10 MS. MANNING: So they only had two there.

11 DIRECTOR JOHNSON: Yes, they only had two.

12 MS. MANNING: And they're missing a fifth.  
13 Yeah. They don't have a fifth member yet.

14 MR. SCHEU: Oh, then that would be right.  
15 It just seemed strange to me.

16 MS. MANNING: No. They only had two there,  
17 and there is no fifth member. So right now  
18 they're at four.

19 MR. SCHEU: Okay. Thank you.

20 MR. PATSY: Okay. That concludes -- Dan,  
21 unless you have anything more, that concludes the  
22 investment counsel reports.

23 Old Business. Any Old Business we need to  
24 discuss?

25 DIRECTOR JOHNSON: I don't think there is.

1           Debbie, remind me, anything old we have to  
2 go over?

3           MS. MANNING: I don't think so.

4           MR. PATSY: New Business. Guess what?  
5 We're adjourned.

6           (The meeting adjourned at 10:25 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 72, 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 2nd day of December, 2016.

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

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