

JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: February 17, 2017

TIME: 9:01 to 10:50 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 Chair
Richard Patsy, Board Secretary
William Scheu, Trustee
Chris Brown, Trustee

STAFF PRESENT:

Timothy Johnson, Executive Director,
Plan Administrator
Debbie Manning, Executive Assistant
Devin Carter, CFO
Robert Sugarman, Board Counsel
Dan Holmes, Summit Strategies Group
Pete Strong, GRS (via telephone)

CITY REPRESENTATIVES PRESENT:

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

ALSO PRESENT:

Randy Wyse, JFRD
Paul Daragjati, Securities Counsel
Linda Dufresne, KBLD (via telephone)

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BOARD MEETING

February 17, 2009

9:01 a.m.

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CHAIRMAN TUTEN: All right. We're called to order at 0901.

MS. MANNING: We are waiting on Pete Strong.

CHAIRMAN TUTEN: Okay. Everybody stand for the pledge of allegiance real quick.

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

Would everybody take a moment of silence real quick for Donald Kreitzman, retired fire lieutenant. He hadn't been off the job for more than a couple years.

And Michael Castle, retired police lieutenant.

(Pause)

CHAIRMAN TUTEN: All right. Thank you.

We have the public speaking period. I have one speaker, Mr. Bill Gassett. Bill.

MR. GASSETT: Thank you very much. My name is Bill Gassett. My address is a matter of record.

1 My comments this morning are based entirely
2 from what I read from the paper as it pertains to
3 the 25 percent city contribution, the 10 percent
4 annual contribution from the member.

5 And I'd like to say that with that simple
6 construct, I absolutely 100 percent support that
7 idea. If I were a member of your group, I'd say
8 let's sign this thing next Friday. And this
9 coming Monday, if you've waived the requirement
10 of the 10 percent contribution, make it
11 voluntary.

12 With that, I'll say thank you very much.

13 CHAIRMAN TUTEN: Okay. Thank you, Bill.

14 There are no others speakers, so we're done
15 with that.

16 We have the Consent Agenda for the Board to
17 review real quick.

18 Go ahead.

19 MS. BROSCHE: Mr. Chairman, I would like to
20 ask that the minutes of the January 18th Special
21 Meeting be amended to reflect my attendance.

22 CHAIRMAN TUTEN: Oh, it wasn't on there?
23 Okay.

24 MS. BROSCHE: It says I did not attend.

25 MS. MANNING: For the January 18?

1 MS. BROSCHE: Yes.

2 CHAIRMAN TUTEN: Yes. She was here. Sorry
3 about that.

4 Okay. Do we have a motion to approve the
5 Consent Agenda?

6 MR. BROWN: I make a motion.

7 MR. PATSY: Second.

8 CHAIRMAN TUTEN: We have a motion and a
9 second from Mr. Patsy.

10 All right. Questions or comments?

11 (No responses.)

12 CHAIRMAN TUTEN: All in favor?

13 (Responses of "aye.")

14 CHAIRMAN TUTEN: Any opposed?

15 (No responses.)

16 CHAIRMAN TUTEN: The Consent Agenda passes
17 by 4 to zero.

18 Okay. First thing up, Director, take it
19 from here.

20 MS. MANNING: Excuse me. Chairman Tuten,
21 you have two agendas to approve. You have the
22 January 18th and the January 20th. So can we --
23 I believe you would like them to be done
24 individually or --

25 DIRECTOR JOHNSON: Yeah. We had the Special

1 Workshop --

2 MS. MANNING: We had a Special Workshop on
3 the 18th.

4 DIRECTOR JOHNSON: -- for the actuarial
5 report --

6 CHAIRMAN TUTEN: Right.

7 DIRECTOR JOHNSON: -- and then we had the
8 Board meeting.

9 So the first one was correcting the minutes
10 for the 18th.

11 MS. MANNING: Right.

12 DIRECTOR JOHNSON: And now if you would
13 entertain a motion to accept the minutes from the
14 meeting for the actuarial workshop.

15 MR. SCHEU: So move.

16 MR. BROWN: Second.

17 CHAIRMAN TUTEN: Okay. We got a motion.
18 Got a second.

19 All right. Questions, comments?

20 (No responses.)

21 CHAIRMAN TUTEN: All in favor?

22 (Responses of "aye.")

23 MS. MANNING: Who was first?

24 DIRECTOR JOHNSON: Chris Brown was first.

25 MR. BROWN: Bill was first. I seconded the

1 motion.

2 MS. MANNING: Okay. Got it.

3 CHAIRMAN TUTEN: Any questions? Do we need
4 to vote on this one too?

5 MS. MANNING: Yes.

6 MR. SCHEU: We just did.

7 CHAIRMAN TUTEN: That's what I thought we
8 did. All right. Director.

9 DIRECTOR JOHNSON: All right.

10 As I mentioned earlier, we're going to amend
11 the agenda to consider action items first.

12 So I have one action item in my report that
13 I would like the Board to consider, and then that
14 will be followed by two recommendations from our
15 investment consultant, Dan Holmes, follow-up from
16 last month's meeting relative to both Eagle and
17 Brown.

18 We'll have a motion -- a recommendation from
19 our CFO relative to commission recapture, and
20 also we would like to have time for the draft
21 actuarial -- pardon me -- draft financial audit
22 report to be presented to the Board and to be
23 ratified.

24 So if you would open the tab to Executive
25 Director's Report. And I'll come back and I'll

1 give a little bit more color and commentary on my
2 updates.

3 But I would like to focus your attention on
4 the third page of my report. There's a
5 highlight describe a workshop to discuss
6 ordinance 300 and 304.

7 There have been many recent comments in the
8 media that the city wants to eliminate
9 supplemental payments.

10 As you know, there's also been a draft
11 agreement between the city and the unions that's
12 been reported on, and both of these have
13 implications for the Police and Fire Pension
14 Fund.

15 So I would like to suggest, Mr. Chairman,
16 that you consider us having a workshop where we
17 can invite in the Office of General Counsel to
18 review both of these ordinances, 300, relative to
19 the surtax, 304, relative to the supplemental
20 payment, along with focusing on what the Board's
21 authority is under the law, as well as what the
22 procedures are for amending these agreements.

23 So if you wouldn't mind entertaining some
24 discussion around that, I'd love to get your
25 direction and get a meeting like that scheduled.

1 CHAIRMAN TUTEN: Yeah. I think that would
2 be productive. The only thing I would -- while
3 we have him here, and Bob, we're going invite
4 Bob, of course, unless you don't think it's
5 necessary. But I think it would be helpful to
6 have both lawyers here at the same time.

7 Also add to that the language of the
8 contracts themselves. I don't know if the JSO
9 contract is any different than the firemen's
10 contract per se. But there's language in there
11 pertaining to not only the contributions, but the
12 extra contribution from our side with the
13 enhanced benefit account, et cetera, et cetera,
14 share plan, that kind of thing.

15 And, you know, I think it would be good to
16 get into the meat and bones of it. Until we have
17 actual numbers from the mayor as far as
18 long-term, short-term, how this affects the city
19 budget, the pension, et cetera, et cetera, we
20 really can't deal with that.

21 But as far as this goes, I think it's a
22 great idea. If you want to get with everybody at
23 another time and try to set it up, because
24 everybody's schedule is kind of wonky, you know.
25 So we'll do that.

1 Do we need a motion and a second?

2 DIRECTOR JOHNSON: No. I just take your
3 direction and I'll get it scheduled.

4 MR. SCHEU: I will be in town the week of
5 the 13th, so if it could be earlier in that week.
6 That's a Monday, I believe, but it would be just
7 helpful for me to be there in person, if
8 everybody else could be.

9 MR. BROWN: You will be in the week of
10 March 13th?

11 MR. SCHEU: Yes. All week.

12 CHAIRMAN TUTEN: What is that? That's a
13 Monday.

14 MR. SCHEU: That's a Monday.

15 MR. PATSY: We have the meeting on the 17th.

16 MR. SCHEU: Yeah, the Board meeting.

17 MR. BROWN: Monday or Tuesday would be
18 great, the 13th or 14th, if that works.

19 MR. SUGARMAN: That won't work for me.

20 MR. PATSY: Except for the 16th, that's a
21 good week for me.

22 MR. SUGARMAN: No, I can't be here. I can
23 be here -- the 16th is your bad day, right?

24 MR. BROWN: The 16th would work for me as
25 well.

1 MR. SUGARMAN: Let me take a look.

2 MR. PATSY: That whole week is good for me.

3 MR. SCHEU: Yeah, the 16th is good for me
4 too.

5 DIRECTOR JOHNSON: All right. I'll get the
6 meeting scheduled.

7 MR. SUGARMAN: 16th looks good, but it will
8 have to be -- I have to fly up in the morning.
9 I'll check and see what the last flight out is.

10 MR. SCHEU: Could we ask Bob if he would
11 consult with Jason, get -- hopefully get your
12 thoughts together on it, with Steve, whoever is
13 going to do it.

14 MR. SUGARMAN: Will do.

15 MR. DURDEN: Steve Durden here.

16 I believe that the request will be from our
17 office to be sooner than this. I believe that
18 the agreement provides for a requirement to have
19 the Board do whatever it does by March 15th.

20 This is a very short window of time to get
21 these agreements done. I'll confirm that, but I
22 believe that's what it says. I don't know if
23 you-all can do it next week or the week after.
24 This is for the workshop concept. I know you-all
25 normally meet at -- I believe it's the 16th is

1 when the next meeting is scheduled, or the 17th.

2 MS. MANNING: 17th.

3 MR. DURDEN: So let me -- I'll confirm, but
4 I believe that the agreements themselves provide
5 for a very short window. Everything has to be
6 done by the end of March, but the request is, I
7 believe, in the agreement to have you-all get
8 involved by the 15th.

9 MR. SCHEU: That's a request or a demand?
10 We aren't parties to that.

11 MR. DURDEN: Well, it's in the agreement.
12 It's in the agreement --

13 MR. BROWN: Agreement with whom?

14 MR. SCHEU: Agreement with who? We're not a
15 party to that agreement.

16 MR. DURDEN: No. I'm -- the unions, but
17 this is -- this is a -- there are contingencies
18 in the agreements with the unions, and if things
19 aren't done, then I'm not sure exactly what that
20 will mean to the agreements, but the agreements
21 do provide for a March 15th time frame.

22 MR. SCHEU: When does the City Council have
23 to act?

24 MR. DURDEN: The bills have to be introduced
25 to the City Council by March 31st.

1 MR. SCHEU: So our meeting on the 17th or
2 whatever it is could still be affected.

3 MR. DURDEN: I can confirm that. The
4 agreements do reference the 15th is the date, and
5 I don't know exactly what that means. But I can
6 confirm whether the 17th works.

7 MR. BROWN: Well, Steve, we've discussed the
8 possibility of the 16th. I'm sure one-day
9 difference isn't going to be a problem, but if
10 you want to check.

11 MR. DURDEN: I'll confirm. I don't know why
12 the 16th or the 17th, if you-all -- but I do need
13 to make sure about that, and I'll confirm with
14 Jason further.

15 MR. SCHEU: But we're not a party to that
16 agreement anyway.

17 MR. DURDEN: No, but if the agreement -- but
18 it is a contingency, as part of the agreement.
19 Because as you know, there are a variety of
20 things in here that relate -- in the agreements
21 and I know you-all are aware of the fact that
22 there are -- there are provisions in the
23 agreement that relate to the 2015, 304, the
24 current charter -- I mean, the current ordinance
25 code, et cetera, and agreements to make some

1 changes.

2 And, admittedly, those are between -- if
3 they're approved, of course, they're between the
4 unions and the city. To the extent that this
5 Board has to be involved, we need to get it done
6 under the agreements, I believe, by the 15th of
7 March.

8 MR. SCHEU: The trouble is, nobody's given
9 us -- we don't know what's in what agreement.

10 MR. DURDEN: That's correct.

11 MR. SCHEU: And nobody gives us any
12 information, so how are we to act?

13 MR. DURDEN: Well, that's what the idea of
14 the workshop is. So we -- we'll -- our hope, I
15 believe, was that it could be done early.

16 MR. SCHEU: So this is to act on what?
17 Because we have no financial information, no
18 evaluation, no nothing.

19 MR. DURDEN: The workshop was to be -- I
20 agree, Mr. Scheu. The idea was to get you as
21 soon as the -- basically the agreements have not
22 been out very long. I mean, they were all kept
23 under wraps.

24 No one -- no one saw the agreements other
25 than the negotiating teams until -- I mean, there

1 was the public meetings, of course. But the
2 agreements themselves were not done until -- the
3 proposed agreements, the tentative agreements,
4 weren't done until, I think, early last week or
5 late last week. I'm not even sure when they
6 were.

7 But it has not been long. And I -- I don't
8 know that there was -- it became appropriate to
9 bring them to your attention, and tell them that
10 no one else would know until -- I don't know what
11 to tell you about that.

12 This moves as quickly as possible.

13 MR. BROWN: Whatever you-all decide, I'm
14 going to be out of pocket for the next two weeks.
15 I'll be in Texas next week and I've got Board
16 hearings for my department the following week,
17 all week.

18 MR. SCHEU: I think we say the earlier we
19 would do it -- this workshop is just on our power
20 of authority. It's not on the terms of the deal.
21 And if we're asked to be voting on the terms of
22 the deal, we need to know what the deal is and
23 all the financial support.

24 MR. DURDEN: Of course. I understand that.

25 MR. SCHEU: And we won't have that.

1 MR. DURDEN: Well, I will talk to
2 Mr. Gabriel about this. And perhaps -- in
3 hearing that Mr. Brown won't be here for a couple
4 weeks, perhaps some of it can be done on one. I
5 will find out from Mr. Gabriel how to make sure
6 you-all have the most information you can have as
7 quickly as possible.

8 CHAIRMAN TUTEN: Is there anything
9 preventing Jason from coming to a workshop and
10 explaining to us his perspective on -- don't
11 worry about particulars of it, but saying, when
12 it comes to the reform agreement --

13 MR. DURDEN: Yes, sir.

14 DIRECTOR JOHNSON: -- that's going to be the
15 kicker here because the mayor doesn't want to pay
16 the extra payments, we're a little reticent to
17 give that up now that it's been codified with the
18 federal court.

19 What his opinion is as far as how we are
20 able to get out of that agreement outside of
21 just -- if he's just going to show up and say,
22 look, if you-all just say you don't want to do
23 it, that's all it takes, okay. Then we'll move
24 on to the numbers part, because if the numbers
25 don't add up, then we're going to have a problem.

1 That said, there's other issues at fault
2 here with that contract. Like I said, share
3 plans and all that extra money the pension fund
4 is chipping in, and we need him to explain how
5 that's going to be handled, not only if we say
6 yes, but how it's going to be handled with the
7 contract implementation.

8 MR. DURDEN: Absolutely. And that was the
9 goal of the workshop, to get you the -- to help
10 explain to what the deal is, how it works, how it
11 interacts with you, your authority, the reform
12 agreement, all of that.

13 That's precisely what his goal has been, is
14 to get you guys that information. And I know
15 he's been trying to set it up as quickly as
16 possible. And obviously I hear from this
17 discussion that you-all are -- you-all are
18 struggling to get back together before March
19 16th.

20 CHAIRMAN TUTEN: So you're saying he's not
21 going to have that done in time? Is that what --

22 MR. DURDEN: No, no, no. No. He's ready
23 and available to discuss this with you right
24 away, Monday of next week, Tuesday, Wednesday. I
25 don't know his schedule, but certainly next week.

1 But you-all apparently are not quite able to
2 get together as a Board anyway for a longer
3 period of time. He's not trying to delay that
4 information. He wants to get that information to
5 you right away and answer your questions as fully
6 as he possibly can as to what -- all the factors,
7 all the things you just mentioned, which is what
8 is actually in the deal. I mean, I know you-all
9 have read it --

10 CHAIRMAN TUTEN: Well, we kind of -- I mean,
11 I want Bob here to be able to actually -- Bob, do
12 you have a contract of the union -- a copy of the
13 union contracts?

14 MR. SUGARMAN: I've seen -- I've seen the
15 outline of the police contract.

16 CHAIRMAN TUTEN: Okay.

17 MR. SUGARMAN: I've read the news articles
18 and I've read the ordinances.

19 CHAIRMAN TUTEN: Okay. Well, we need --

20 MR. SUGARMAN: If I may --

21 DIRECTOR JOHNSON: Yeah. I haven't sent it
22 to him, but he may have gotten it through some
23 other means.

24 MR. SUGARMAN: Okay. I didn't come here to
25 spoil the party, but I did come here to protect

1 you. That's what you hired me for.

2 And from what I understand, from what I've
3 read, you have a momentous decision to make,
4 because as I understand it, you are trading one
5 income stream for another. That's how -- to
6 assure the proper funding and security of this
7 pension fund.

8 That is the equivalent in business talk of a
9 merger and acquisition. We're trading one for
10 the other, and that's a very big decision. The
11 numbers are very large. And you're going to
12 need, I believe, outside advice, not just legal
13 advice, but other advice, to be able to look into
14 that, because that's your fiduciary duty: What's
15 best for our participants and beneficiaries in
16 terms of funding this plan, if we're going to
17 switch one funding promise for another.

18 Now, but asking the question, I'm not
19 suggesting the answer. But that is the issue
20 you're going to have to grapple with. And I
21 don't -- if you can do it in a month, we're ready
22 to guide you and to go to work with you once we
23 get more information.

24 MR. BROWN: When you say other outside
25 people, you're referring to actuaries or

1 analysts --

2 MR. SUGARMAN: Actuaries and maybe financial
3 advisors. Not the type of financial advisors on
4 stocks and bonds, but financial advisors who are
5 able to tell you, number one, the consequences of
6 shifting these income streams; and, number two,
7 the reliability of each income, how secure is
8 each income stream. And these are things that
9 you need to go into.

10 CHAIRMAN TUTEN: Well, part of that, you're
11 right, Bob, and that's why I alluded to the
12 actual language in the contract because it's not
13 simply a matter of shifting revenue streams from
14 now into the future.

15 It's a matter of we've made promises with
16 share plans, our extra contributions to the whole
17 unfunding, et cetera, down the road. And from
18 what I've read in the contracts, it's a little
19 hazy on what exactly, you know, all that stuff
20 means, you know, as far as, you know, what
21 happened to the enhanced benefit account? What
22 happened to the share plan? What happened to
23 this going forward?

24 So we definitely need all that.

25 MR. SUGARMAN: Yes. Real numbers and real

1 examples.

2 CHAIRMAN TUTEN: But before we get to that
3 point, are we going to need -- before we schedule
4 a workshop, are we going to need the mayor's
5 complete plan? Because if he doesn't spell out
6 the numbers, we're just sort of talking to
7 ourselves.

8 MR. SCHEU: Well, I understood that the
9 workshop was to be on our power, which is
10 different from what --

11 CHAIRMAN TUTEN: Well, that's part of it.

12 MR. SCHEU: -- and this is a shock to me
13 that we have to act by March 15th, with no
14 financial information, and it's unbelievable.
15 And the community deserves it. It's not just us.

16 Councilwoman Brosche and the finance
17 committee, they deserve to know what the numbers
18 are, and the community --

19 CHAIRMAN TUTEN: Well, but what I'm saying
20 is, in other words, before we have a workshop,
21 before we find out what we're entitled to do,
22 whether we want to do it or not, it would be
23 better served to have the complete picture before
24 we start the workshop and we go down this
25 four-hour road, because you know what's going to

1 happen. We're going to get in it and things will
2 branch out. We need answers, you know.

3 MR. BROWN: Part of that big picture is more
4 than just simply having the numbers from the
5 mayor and having these proposed contracts, but
6 also having that outside analysis either done or,
7 you know, scheduled for our workshop so that we
8 can ask those questions and get answers then.

9 And I know in the interest of trying to work
10 with the city to meet -- I don't know that we're
11 going to meet the deadline that they have set
12 there, but to try to do this in a timely manner,
13 because I know that a lot of things have to fall
14 into place, it seems to me that we would need to
15 go ahead and start the process of finding out who
16 we're going to need to talk to and figuring out
17 who those people would be and scheduling them to
18 meet with us whenever we can.

19 I mean, I know that -- I want to try to get
20 this done in as timely a manner as possible, but
21 like you said, this is a very, very large
22 decision, very important decision.

23 MR. SUGARMAN: The city is our partner. We
24 want to work with them as much as we can, but we
25 do have procedures that we, and all other

1 fiduciaries, go through. Let me give you an
2 analogy.

3 Your investment consultant says, I think
4 that you should invest -- instead of money coming
5 in, money going out, I think you should invest in
6 this new area of alternate investment. This new
7 allocation investment.

8 The first thing he'll do is he'll show you
9 what the allocation will do to your expected
10 return. The second thing is he's going to
11 educate you about what type of investment that
12 is.

13 Then he's going to bring in investment
14 managers who are going to explain exactly how
15 they do it, and then you'll have enough
16 information to make a decision.

17 We're talking about investments of 10-,
18 15-, 20-million dollars. When we're talking
19 about an income stream of over \$30 million a
20 year, add it all up, it comes to about half a
21 billion, we still have to go through the same
22 process.

23 Someone wants us to do something, our
24 partner in the city. So they should come to us
25 and make a proposal. They should say, this is

1 what we want and this is why we want it and this
2 is why we believe it's legal.

3 Then we have something to evaluate. Until
4 we get a proposal, I can't even tell you who we
5 should be hiring to evaluate it.

6 It's got -- now, if they want -- if we can
7 meet every week to meet their March 15th
8 deadline, without placing a burden on an
9 all-volunteer board, then we should.

10 If the March 15th deadline is not realistic,
11 which I'm afraid it probably isn't -- but, again,
12 I'm ready to meet every week if need be -- then
13 that's not our fault. We did not establish that
14 March 15th deadline.

15 So the first step is to get a proposal.

16 MR. SCHEU: I agree.

17 MR. SUGARMAN: And that would be combined
18 with the advice from the general counsel's
19 office, what Tim wants, but we've got to know
20 what we're talking about before we even know what
21 your powers and authorities are.

22 MR. SCHEU: And the trouble is that the
23 mayor will demean us for wanting to act out as
24 our fiduciary responsibilities. And I'll give
25 you a good example because --

1 Joey, does the mayor's office favor the zero
2 percent payroll growth assumption, or does it
3 want to go to 2 1/2 or 3 percent?

4 MR. GREIVE: Through the Chair to Trustee
5 Scheu, I don't know what the mayor's office
6 prefers. I don't speak with the mayor all that
7 often.

8 But I can tell you you've got a case to be
9 made under 112.64(5)(a), it requires you to use
10 the last ten years of actual payroll growth.

11 Under 112.64.(5)(b), the actuary has an
12 alternative to take into account pay raises that
13 are on the table, other factors in setting your
14 payroll growth rates.

15 MR. SCHEU: And in your experience in the
16 last few weeks, is it your impression that the
17 chief of finance and the offices with which you
18 work as treasurer would favor the ten-year
19 average, or would it want to go to something
20 higher than that, looking forward?

21 MR. GREIVE: Well, I can tell you my boss,
22 the CFO, is going to Tallahassee to meet with
23 them and talk with them next Thursday on that
24 topic.

25 MR. SCHEU: On that topic. But is he going

1 to be supporting something like a 2 1/2 percent
2 or --

3 MR. GREIVE: Well, I think -- I think he'll
4 be favoring what's reasonable and right, which
5 under 112.64(5)(b), would be to take into account
6 the significant pay raises that are on the table.

7 MR. SCHEU: Right. So that whereas the
8 mayor demeaned us for not taking that into
9 account, even though you had participated in the
10 meeting back in January. Now he's like to demean
11 us for wanting to take our fiduciary
12 responsibility seriously.

13 And we have no advice concerning this
14 agreement, what it is, what we're supposed to do,
15 yet we have a fiduciary responsibility to act on
16 it.

17 And I, for one, think we need to exercise
18 that in spite of what it fails to --

19 CHAIRMAN TUTEN: Well, everybody knows me by
20 now.

21 What the mayor wants, really, at this point,
22 is irrelevant. We know what he wants,
23 overarching goals. Okay. He wants to get rid of
24 these payments.

25 Thing about it is, Bill, if I need something

1 from you, buddy, I come to you with the full
2 package saying, look, can you read this tonight?
3 I'll be back tomorrow.

4 MR. SCHEU: Right.

5 CHAIRMAN TUTEN: You don't come and say,
6 Bill, just sign off on it; trust me, man, it's no
7 big deal. Like I said, you wouldn't buy a car
8 that way, much less a refrigerator, much less a
9 billion dollars in pension payments.

10 That said, our responsibility is to the
11 members to make sure this pension plan is
12 fiscally sound.

13 We have a reform agreement. It's on that
14 path. It's not going to get there overnight, but
15 the costs to the city have gone down long-term.
16 The income for the pension fund has gone up,
17 short- and long-term.

18 In order to change that, the mayor should be
19 presenting a very convincing case right at the
20 moment to us. We're not getting that case. That
21 said, there are things that we can do as a Board
22 to start sort of laying the outline, the big
23 picture, as to what we need.

24 Until we get those things from the mayor,
25 there is no way we're going to meet March 15th.

1 There is no way. The mayor knows this. You
2 can't impose a deadline on someone, expecting
3 them to take your word for it, just because you
4 want something. I think the quote is, a lack of
5 planning on your part does not mean an emergency
6 on mine.

7 Is that -- is that not the one that I've
8 heard all the time?

9 (Laughter)

10 MR. PATSY: That's the Rich version. Yeah.

11 CHAIRMAN TUTEN: Yeah, yeah. I can go PG if
12 I have to.

13 MR. SCHEU: So are you suggesting that we
14 wait to schedule a workshop -- and Bob, so we
15 have --

16 CHAIRMAN TUTEN: Yes. Director Johnson and
17 Bob can handle the preliminaries as far as laying
18 the foundation, who we might need to contact,
19 why, et cetera, et cetera.

20 When we get stuff -- you can relay this back
21 to the mayor. Look, you know, we're going to
22 need that report. We're going to need you to
23 show us why this is a good idea, because you
24 won't be the mayor here if this thing goes south
25 in eight years, okay?

1 It will be some other mayor or some other
2 councilperson, or you might be have, and they
3 might have to deal with this because you made a
4 decision eight years ago to get rid of this
5 income based on what you thought was going to
6 happen down the road with this tax.

7 And there's other things, and I try to -- I
8 want to remind the Board. Go back and read that
9 pension tax bill that was passed. There are
10 things in that bill that provide recouping of
11 money, unless I'm mistaken, that if the city pays
12 stuff now, they can extend that tax out until
13 they recoup that money, which means paying extra
14 now doesn't necessarily cost the city anything.
15 It's just going to take them longer to get the
16 money back.

17 But, anyway, we'll get into all that.

18 MR. PATSY: Rich, to go to Bob's point about
19 the actuary, the actuary is not going to be able
20 to turn this around in 24 hours.

21 CHAIRMAN TUTEN: Oh, no. No, no.

22 MR. PATSY: Any kind of thorough analysis
23 out of him is going to take time.

24 CHAIRMAN TUTEN: Oh, no.

25 And, Steve, what is the mayor's deadline for

1 March 15th? What is that about?

2 MR. PATSY: Where does that come from?

3 MR. DURDEN: That's -- the parties agreed to
4 it. I -- I can't tell you anything. I was not
5 part of the negotiations. That's the unions and
6 the city agreed to this deadline. I can't tell
7 you why that got there and who asked for it and
8 who wanted it shorter or longer.

9 I'm -- and those agreements were negotiated
10 in public, but I was not part of any of those
11 negotiations. I can't tell you what it was other
12 than it's -- well, I really don't know why, other
13 than I suppose there is a desire to -- if there
14 is going to be a pension tax imposed, the goal
15 would be to have that part of the budget for this
16 year rather than next year.

17 But I'm not completely sure about that, so I
18 can't tell you the reasons for the deadline other
19 than I believe often parties want things done. I
20 mean, that's pretty common. Parties want things
21 done.

22 The City Council is -- will be getting their
23 bill, a complete rewrite based on -- or whatever
24 is necessary to rewrite, I should say -- whatever
25 is necessary to rewrite from the ordinance code

1 regarding benefits for the employees, not just
2 the pension, but the raises, whatever it is, will
3 be going to the City Council by March 31st.

4 MR. BROWN: Can I ask a question?

5 CHAIRMAN TUTEN: Yeah.

6 MR. BROWN: So I understand and -- the union
7 and the city agreed to meet a deadline that would
8 have to be met by another entity. Is that what
9 you're saying?

10 That they agreed to a certain time line
11 which requires other entities to act, but they
12 didn't consult with the entities to make sure
13 that they could meet those deadlines. Is that --

14 MR. SCHEU: Randy is here if you want to ask
15 him about that.

16 CHAIRMAN TUTEN: Well, yeah, essentially.
17 In other words, hurry up and pass it so you can
18 find out what's in it.

19 MR. BROWN: And then we'll guarantee that
20 it's --

21 MR. SCHEU: You'll learn what's in it after
22 you pass it.

23 CHAIRMAN TUTEN: Yeah. You'll love it.
24 Just go ahead and pass it. Wait till you find
25 out. Yikes.

1 MR. DURDEN: Well, I mean --

2 CHAIRMAN TUTEN: How about this? We've got
3 to get through this. Tim's got -- Tim -- where's
4 Bob? Bob, you're back. Good.

5 MR. SUGARMAN: I apologize.

6 CHAIRMAN TUTEN: Lay the foundation for who
7 we need -- how do you pronounce your last name?
8 Is it Brosche?

9 MS. BROSCHE: Brosche.

10 CHAIRMAN TUTEN: If you want to be a part of
11 the process other than just sitting there
12 listening to me bloviate, that's fine.

13 But if you have questions or anything maybe
14 you or the council people are looking for, you
15 know, as far as a concern or anything, feel free
16 to bring them along with you at the workshop.

17 MS. BROSCHE: Okay.

18 CHAIRMAN TUTEN: You're more than invited,
19 okay? Because obviously you guys are going to be
20 part of the process sooner or later.

21 Bill, did you have something else to add?

22 MR. SCHEU: No. I would think that Bob's
23 advice, that we should not necessarily have a
24 resolution, but it ought to be the consensus of
25 the group that we urge the mayor to give us a

1 full proposal so that we can have something in
2 front of us.

3 CHAIRMAN TUTEN: I agree, and I don't think
4 we're going to have, unless -- unless when you
5 guys are coming up with your basics, that you
6 think we ought to have a workshop just to discuss
7 some sort of foundation or something to look for.

8 But until we get the numbers, you're right,
9 because, truthfully, until we get those numbers,
10 our actuary can't even do a basic experience
11 study --

12 MR. BROWN: Do we need to have
13 correspondence drafted to the mayor, or is a
14 simple enough request that we go through the
15 general counsel --

16 MR. SCHEU: They've heard it. I think it
17 would be back -- it's probably already back.

18 CHAIRMAN TUTEN: Oh, of course. Yeah, I
19 know, trust me. Yeah, they read all my emails.
20 Trust me on that one.

21 (Laughter)

22 CHAIRMAN TUTEN: So lay the foundation --

23 DIRECTOR JOHNSON: We'll take care of it.

24 CHAIRMAN TUTEN: -- get it rolling. Do you
25 have anything else to add, Bob?

1 MR. SUGARMAN: Yeah. What we're looking for
2 here is nothing unusual. It's called due
3 diligence. Prudence is -- you have to act
4 prudently. That's your fiduciary duty. Prudence
5 is a process.

6 The one thing that makes you-all unique is
7 that unlike anybody else who's involved in the
8 union negotiations or what's -- the proposal we
9 made to the Board, each trustee has personal skin
10 in the game. Meaning, that you are personally
11 liable for breaches of fiduciary duty.

12 And you can't buy -- I'm not saying that to
13 scare you because you knew that coming in.

14 You can't buy enough insurance to cover the
15 kind of numbers that we have here. So my goal is
16 to make a careful and deliberative process. You
17 can do that fast. You can do that slow. But
18 we're not going to skip any steps.

19 CHAIRMAN TUTEN: Now, before we get those
20 numbers from the mayor, as far as the contract
21 goes, the language in the two contracts, the
22 police and the fire contract, as far as what all
23 that stuff means related to, can we still sort of
24 break that down as is it related to us, or do we
25 really need to get the full financial picture

1 first, or would it really even matter what's in
2 the contract until we get the financials? Do you
3 understand what I'm saying --

4 MR. SCHEU: Let's get the proposal --

5 CHAIRMAN TUTEN: Okay. Just want to get the
6 full --

7 MR. SUGARMAN: We need --

8 CHAIRMAN TUTEN: -- and hopefully the mayor
9 will have in his proposal what all that means in
10 the contract as far as where this share plan
11 money's going, state chapter money, this, that
12 and the other.

13 MR. BROWN: As soon as the fund gets it, we
14 can all individually review it. I mean, it can
15 be sent to us to jump start on it.

16 MR. PATSY: Okay.

17 MR. SCHEU: And as Bob said, whatever
18 financial analysis they have and what makes this
19 a better deal?

20 CHAIRMAN TUTEN: Right.

21 MR. SCHEU: Both from the fund's
22 perspective, the members' perspective and the
23 city's perspective. What is it, so that we can
24 balance in making this decision.

25 CHAIRMAN TUTEN: Well, and that gets back to

1 Bob's point of the people that are going to do
2 the analysis. I want somebody -- it's a good
3 point.

4 I want somebody that's not an actuary,
5 that's not a trustee, that's not a lawyer to --
6 that doesn't work with the city, that's on the
7 record, by the way, that can put more of an
8 economic overview of it, because there's other
9 factors involved here as far as the stock market
10 returns, the economy, this, that and the other.

11 Because essentially what we're doing is,
12 once again, deferring paying down debt. Now,
13 it's different this time in that we do have a
14 revenue stream in the future. But if we have a
15 downturn or something in the ensuing years, will
16 it put this fund in even worse shape than it is
17 now, which is, what are we, 45 percent funded?
18 Something like that.

19 MR. SCHEU: Yeah. I just had an idea.

20 You know, the pension reform task force
21 gratis received significant help for the future
22 of the trust, and I'm wondering if Pew might be
23 willing to come analyze all this for us.

24 CHAIRMAN TUTEN: It does -- I would prefer
25 to have someone that hasn't been in the process

1 before, Bill, simply because I don't want any
2 sort of -- I won't say bias or prejudice, but
3 somebody outside of us -- because we were there,
4 obviously, we can't do anything about that --
5 somebody to just take an overview, neutral look
6 and say, look, this is what's going to happen.
7 This is maybe possibly where you open yourself up
8 to trouble based on market returns, et cetera, et
9 cetera.

10 I don't know who to call. Somebody like Pew
11 would be fine, but they've been in the process
12 before, and I would prefer to find more -- really
13 and truthfully, like an economics professor at
14 UNF or somebody that can do it.

15 MR. SCHEU: What you're saying is very
16 helpful, and picking up on what Chris said, you
17 know, the components of the proposal are very
18 important because the -- as an example, under the
19 reform legislation, as I read it, it's mandatory,
20 but I understand Mr. Weinstein doesn't think it's
21 mandatory, that you're required to take into
22 account as an asset the present value of the
23 future income stream derived from the tax.

24 CHAIRMAN TUTEN: Right.

25 MR. SCHEU: Well, we need to know whether

1 they're going to do that or not, and whether they
2 want us to -- what's the mayor's position on
3 that?

4 What -- so how does that economic impact if
5 you do include that asset or you don't? That's
6 the kind of things we need to --

7 MR. BROWN: Is that what the mayor is
8 expecting? Is there an indication that bonds
9 will be issued? We need to know the exact plan
10 that the mayor --

11 CHAIRMAN TUTEN: Can we legally do that?

12 MR. SCHEU: Can we legally do what?

13 (Simultaneous speech)

14 MR. SCHEU: It's mandatory.

15 MR. DURDEN: The statute makes it clear that
16 if it's -- if that path is chosen, you must, you
17 must, count that.

18 CHAIRMAN TUTEN: Okay. And that's cool with
19 the IRA and that doesn't affect our plan in my
20 way as far as tax-free status or nothing like
21 that?

22 MR. DURDEN: There's -- I am not an expert
23 on IRS law by any stretch of the imagination, but
24 you begin with the state statutes. You presume
25 their validity, and the state statute makes it

1 perfectly clear.

2 And in a certain since you regularly guess
3 what incomes will be in the future. That's the
4 guesstimate of how much money is going to come in
5 from the city in the future. That's a
6 guesstimate of how much money is going to come in
7 from the employees. Those are all guesses. You
8 don't know for sure if they're coming in.

9 MR. BROWN: Sure. Certainly.

10 MR. SCHEU: Not to get in the weeds, but
11 that's the kind of analysis we need to do.

12 So that's why we need the proposal and what
13 they intend to do.

14 MR. BROWN: Yes.

15 CHAIRMAN TUTEN: Okay.

16 MR. SUGARMAN: All we have so far is what
17 I'll term a TA reveal sheet between the unions
18 and the employer. Between that and this being
19 implemented, there will be a full collective
20 bargaining agreement that will be voted on and
21 ratified by the members. We need to see that.

22 And there will be ordinances implementing
23 the collective bargaining agreement and amending
24 our pension ordinance. We need to see those.

25 And there will be an amendment to the

1 agreement between this Board and the city. The
2 Pension Reform Agreement of 2015 will have to be
3 amended.

4 We need to see those because that's what
5 we're going to be living by.

6 MR. BROWN: Bob, in your professional
7 estimation, how long do you think, if we work
8 efficiently -- how long would it take for us to
9 shift through all of that and determine, you
10 know, how sound all of those agreements and
11 documents are and us sign off on something?

12 MR. SUGARMAN: It's hard to say because I
13 haven't seen the agreements. I think that doing
14 it in less than 30 days, doing it in four weeks,
15 as been proposed to you, is going to be a
16 challenge.

17 CHAIRMAN TUTEN: It's going to be months
18 because as a -- I like to call myself as a
19 veteran of the reform wars, it takes months.
20 People have schedules. You've got places to be.
21 You've got places to be. We've all got places to
22 be.

23 And then we've got to have this information
24 processed, not just by us, but we're really
25 supposed to get the edited down, the end of the

1 change here version. We're supposed to be
2 downstream in the investment process.

3 Upstream is Bob, Tim, the analysis, the
4 actuaries. We get the whole finished product
5 where we can dissect, well, okay, this is good,
6 but what about this? Look over here.

7 It's unrealistic to think this is going to
8 be done in 30 days or two months.

9 MR. SCHEU: Well, I'm hoping too that we're
10 doing the kind of ground work that the City
11 Council is going to need to evaluate it also.

12 CHAIRMAN TUTEN: Yeah. Of course, they are.

13 MR. SCHEU: As well as the finance
14 committee, of which Ms. Brosche is the chairman,
15 they are going to need this too. And so how can
16 they expect us to act on it in this time?

17 CHAIRMAN TUTEN: Sure. And it's better to
18 get a full, complete picture the first time,
19 right away --

20 MR. BROWN: Yeah.

21 CHAIRMAN TUTEN: -- with no other questions
22 left to be unturned. And then, therefore, your
23 job becomes easier, our job becomes easier.

24 The only downside, of course, is that the
25 mayor is probably not going to be happy with the

1 timeline, which as fiduciaries to this fund,
2 really doesn't concern us, or at least me.

3 MR. SCHEU: He tends to be very calm and
4 nonthreatening.

5 CHAIRMAN TUTEN: (Inaudible)

6 MR. BROWN: I understand the timeliness and
7 the need for that, obviously, especially as a
8 member of one of the unions that's negotiating,
9 and I want to work with the city and get this
10 done as quickly as possible. But at the same
11 time, for me, the biggest responsibility I have
12 is the fiduciary responsibility I have to this
13 fund.

14 CHAIRMAN TUTEN: That's your only
15 responsibility here, boss.

16 MR. BROWN: And so that is why I have to
17 think, you know, exactly with what Bob is saying,
18 that it's going to take careful evaluation and
19 time. I'll make myself available as much as
20 possible.

21 CHAIRMAN TUTEN: Okay. We have -- go ahead,
22 Rick.

23 MR. PATSY: Clarify for me. The union has
24 to vote on this?

25 CHAIRMAN TUTEN: Right.

1 MR. PATSY: When is that right now scheduled
2 to happen?

3 MR. BROWN: Right now, that is occurring
4 starting today. The voting on the contract is
5 starting today.

6 CHAIRMAN TUTEN: For the JSO.

7 MR. BROWN: For JSO.

8 CHAIRMAN TUTEN: President Wyse --

9 MR. WYSE: 13th, 14th, 15th.

10 MR. SCHEU: What sort of package goes to the
11 unions so that they what --

12 MR. PATSY: Yeah. How do they know?

13 MR. SCHEU: How do they know what's in
14 there?

15 CHAIRMAN TUTEN: They're dealing with the
16 basic outline --

17 MR. BROWN: It's an outline.

18 CHAIRMAN TUTEN: -- of the benefits, yeah.

19 MR. SCHEU: It's just an outline.

20 CHAIRMAN TUTEN: Yeah. As far as the actual
21 numbers related to the pension fund, no, that's
22 not included.

23 MR. BROWN: It's an outline of wages, and it
24 changes to benefits for future hires and the
25 current hires and all of that. Just

1 essentially --

2 MR. WYSE: Well, actually, it will input a
3 new retirement section in the contract that we've
4 never had before. There will be a whole other
5 article under retirement benefits that we'll add
6 into that.

7 MR. BROWN: Randy, what is the last day that
8 the JFRD is voting?

9 MR. WYSE: 15th.

10 MR. BROWN: Okay. 15th of?

11 MR. WYSE: March.

12 MR. BROWN: Oh, so the vote won't even be
13 done until the 15th?

14 MR. WYSE: We'll know by the 15th.

15 MR. BROWN: Well, there you go. We can't
16 possibly look at something that hasn't even been
17 voted upon or approved by the membership, I'd
18 say.

19 CHAIRMAN TUTEN: Go ahead.

20 MR. SUGARMAN: Let me answer Trustee Patsy's
21 question.

22 The parties at collective bargaining reach a
23 tentative agreement. This is from the state's
24 labor law. They incorporate that into a
25 full-fledged collective bargaining agreement.

1 That collective bargaining agreement goes to the
2 members of the bargaining unit for ratification
3 by secret ballot vote. It goes to the members of
4 City Council for their ratification.

5 Once you have those two ratifications, now
6 you have a collective bargaining agreement. Any
7 changes that the collective bargaining agreement
8 requires to any other documents such as our
9 agreement, which it could require, but is looking
10 towards, or the city code, which would have to be
11 amended, are then prepared by the city and
12 proposed by the mayor to the City Council.

13 When that's adopted, then everything is
14 complete, except this particular agreement, as I
15 read the outline sheet, I didn't read the
16 contract, requires our approval and an amendment
17 to our pension reform agreement.

18 So those are two outside things that could,
19 if we don't grant that, cause the parties to
20 renegotiate the contract.

21 CHAIRMAN TUTEN: So in other words, until we
22 actually sign off, regardless of, say, everybody
23 votes yes, but until we get our thing done here,
24 they can't -- that agreement technically can't go
25 to the counsel for ratification, correct?

1 MR. SUGARMAN: Even if it -- no. The
2 collective bargaining agreement could go for
3 ratification because the collective bargaining
4 agreement, as I read it, has contingencies, and
5 said if the pension -- and correct me, those of
6 you who are more familiar with it than I --

7 CHAIRMAN TUTEN: Okay.

8 MR. SUGARMAN: -- but as I recall it, said
9 if the pension board doesn't approve it, then
10 this whole collective bargaining agreement falls
11 apart and we have to negotiate a new one. Is
12 that right?

13 MR. DURDEN: That's basically it.

14 CHAIRMAN TUTEN: Okay. Let me step in real
15 quick, guys. We've got to get rolling.

16 Director Johnson, Bob, are there any
17 questions on what we're trying to get done here
18 as far as going forward? We know we're going to
19 need the city's full input, you know, all that.

20 Any other quick concerns, comments to the
21 Board as far as what you want the director and
22 Bob and whoever to start rolling?

23 MR. PATSY: I have one. And this is
24 strictly hypothetical.

25 If we get to a point on March 15th, the

1 unions ratify the agreement, if their -- if an
2 opinion comes along that says, we don't need the
3 pension board's approval of this to enact it,
4 it's strictly hypothetical, of course, what
5 recourse would we have?

6 MR. SUGARMAN: To enforce the 2015
7 agreement.

8 CHAIRMAN TUTEN: You were going to court,
9 basically.

10 MR. DURDEN: Well, not necessarily.

11 Let me make it clear. On the 2015
12 agreement, there are scheduled payments. And the
13 way the scheduled payments -- Mr. Sugarman, I'd
14 ask you to make sure and confirm that I'm correct
15 on this.

16 The city has scheduled payments. We -- if
17 you'll recall, there were two funds put together,
18 both the chapter -- what I will roughly -- we
19 often call it the chapter funds, and I believe it
20 was a city budget stabilization agreement, they
21 were put together in one fund, which you-all have
22 control over.

23 Each year out of that fund the city was --
24 well, not out of that fund, excuse me. The city
25 made promises, I believe it's 5-, 10-, 15-, and

1 then maybe 30 million or something like that each
2 year.

3 CHAIRMAN TUTEN: 32.

4 MR. DURDEN: 32 million each year. And if
5 the city made its 5 million, let's say, and I
6 assume they did last year, then the fund took out
7 of this joint amount of money a match of some
8 sort. It might not be an exact match. Like, I
9 think the first year might have been a 5-. The
10 next year it may be 10-. After that I think it
11 drops to 8 each year for the 12, 14 years -- I
12 think it's a 14-year deal.

13 Any year in which the city makes zero
14 payments under that, you know, it doesn't make
15 the 5- or the 10- or the 15- or the 32-, the
16 contract is very clear as to what your role is in
17 the contract, your right in the contract is not
18 to make your matching payment from that fund.

19 And you can take that money from that
20 matching fund and put it into your authority to
21 spend that -- I forget the account. There's an
22 account that's also set up that you then have the
23 power to pay what we often call the holiday
24 bonus. You could pay down the unfunded liability
25 because of your concern over the fund, or you can

1 put it in the share plan. Those are your
2 choices.

3 CHAIRMAN TUTEN: But --

4 MR. DURDEN: But any failure --

5 CHAIRMAN TUTEN: -- Steve, here's the
6 problem with that and here's the kick with that.

7 If you take the union deal, and this has all
8 been ratified, the city says, we're taking this
9 deal, we don't need your permission, essentially
10 is what your asking, then that directly impacts
11 that three -- what you're talking about, the
12 yearly -- in other words, the city is saying,
13 we're not going to skip one year, we're skipping
14 every year.

15 And there's also conditions in the contract
16 which stipulate what that extra money, that share
17 money goes --

18 MR. DURDEN: Absolutely.

19 CHAIRMAN TUTEN: -- and it's -- in other
20 words, you can't -- you can't -- in other words,
21 you're trying to explain it like, well, there's
22 still elements of the reform agreement that can
23 still be, you know, you guys have control over
24 it. There is not --

25 MR. DURDEN: Mr. Chairman.

1 CHAIRMAN TUTEN: -- if the city goes whole
2 hog and ignores the Board as far as the reform
3 deal --

4 MR. DURDEN: That's not what I said.

5 CHAIRMAN TUTEN: -- none of that matters.

6 MR. DURDEN: I didn't say that. What I said
7 is, if the city doesn't make payments under the
8 agreement today, it's very clear each year what
9 you can do.

10 CHAIRMAN TUTEN: I understand that.

11 MR. DURDEN: And so if the city came up and
12 said, we're not making any payments, and by the
13 way, I'm not saying that's what the deal says,
14 I'm not going through the deal, but if there
15 was -- the city can't not make a payment other
16 than each year. And each year that the city
17 doesn't make a payment, you have your full rights
18 under the contract.

19 And nothing -- and to the extent there's a
20 breach of contract, it's not a breach, it's just
21 simply if the city doesn't make its extra
22 payment, you have money for the share plan and
23 the other source -- other things.

24 CHAIRMAN TUTEN: But that's --

25 MR. SCHEU: Let me ask a question.

1 But, Bob, that's different -- and I know
2 both of you-all are lawyers. That's different
3 than not making a payment as contrasted with
4 anticipatory breaching the whole contract and
5 saying, we refuse to perform. That's a
6 different -- that's the breach. And that's
7 different from simply not paying.

8 CHAIRMAN TUTEN: Yeah. But part of the
9 union contract being passed in front of that
10 whole deal is the fact that 2015-304-E is no
11 longer in existence, so they're going to stop
12 making those payments.

13 So what the recourse is doesn't matter
14 because there's things in that contract that also
15 deal with that extra money coming from our side.

16 In other words, they're not separate issues.
17 They're tied together like this. And until we
18 get them straight, you know, if the mayor were to
19 do that, or just go right ahead and ignore what
20 we were doing, then, of course, we would be left
21 with really no other choice.

22 I mean, we'd end up in court because we'd
23 have to say, no, you've got to come through us
24 based on this language. He'll say, no, based on
25 this, we don't have to. And I guess they could

1 implement all the whatever unless the council
2 stops them, but it wouldn't be very smart.

3 MR. SUGARMAN: Well, by enforcing the
4 contract, it could either mean going to court or
5 bring forth the consequences that Steve just
6 posed.

7 MR. SCHEU: And we're back once again into
8 the whole relationship with the general counsel's
9 office, all the agencies. We don't have the
10 power to sue the city or another agency of the
11 city without the City Council's approval.

12 CHAIRMAN TUTEN: Well, see, and that gets
13 back to the whole idea of why we're entitled to
14 have a separate lawyer, because the general
15 counsel is a direct conflict in a situation like
16 that with us because we say, look, the city did
17 not do what they were supposed to, and you say,
18 aren't you going to talk to them or at least --
19 how, what -- well, no, the city is right. Well,
20 wait a minute. What? So that's why --

21 MR. SCHEU: Our remedies are very small.

22 MR. SUGARMAN: Let me offer maybe a more
23 realistic and more optimistic hypothetical than
24 Trustee Patsy's, although it's a good question
25 and we can see the unfortunate results that would

1 happen from that.

2 It's unlikely that we're going to be able to
3 do our due diligence in four weeks. Again, I'm
4 willing to come here every week to get it done if
5 you-all are, but maybe we can't.

6 And so if everything with the city and the
7 unions goes well and everything is ratified and
8 it says March 15th and we are not able to do what
9 we need to do by then, then their deal falls
10 apart and they renegotiate it.

11 And they'll probably come to us and say,
12 when are you going to get this done? By then
13 we'll know. And then they could just amend one
14 line of their agreement that had -- that we had
15 to act by March 15th and we acted by some other
16 date.

17 CHAIRMAN TUTEN: Well, there's nothing to
18 stop the city from just passing the deal as it
19 is, just carve out that whole 2015-304-E, which
20 takes away that-- you know, the reform agreement
21 aspect of it. Sure. There's all sorts of thing.

22 But what I'm trying to get to, the negative
23 part of it is, we all know that the city knows
24 that if it's not all one part of the deal 100
25 percent across the board, it's a no-go. Okay.

1 They're made that point clear. The problem we
2 have is they haven't given us anything to go by.
3 That said, any -- you've got --

4 MR. SCHEU: Just one other thing.

5 Bob, does the agreement to do away with that
6 reform legislation, how does that impact the
7 governance reforms that were made in that too?

8 CHAIRMAN TUTEN: It's gone.

9 MR. SCHEU: No, really. Is it just the
10 financial stuff, or are they revoking -- are they
11 repealing the whole thing?

12 MR. SUGARMAN: That's why we need to look at
13 more documents.

14 MR. SCHEU: Right. Because that's a
15 question we raise, because, otherwise, that
16 affects our governance. It affects the
17 Investment Advisory Committee. There's lots of
18 things in there that is just beyond economic
19 stuff.

20 CHAIRMAN TUTEN: I agree.

21 MR. PATSY: It's my understanding from the
22 press that it just pertains to the financial side
23 of the equation and not the governance side of
24 the equation. But until we see it in writing and
25 do the analysis --

1 MR. SUGARMAN: Right. Once we see proposed
2 ordinances, proposed collective bargaining
3 agreements, a proposal from the city
4 administration, what do you propose for us to do?
5 What are our governing documents going to look
6 like? Why should we do it? And why is it legal?
7 Then we have something, and that's --

8 MR. DURDEN: And I apologize. I know that
9 you guys want the information. I know that
10 Mr. Gabriel would like to be with you guys sooner
11 than the 16th. I mean, that was his goal, to be
12 with you next week or the week after at the very
13 latest, and that's -- and so I will bring this --
14 bring to his attention the timing issue for you
15 and see -- perhaps we can have other solutions
16 from -- having Mr. Gabriel and Mr. Sugarman talk,
17 and that's a beginning point.

18 And then, two, perhaps we'll have after
19 that, and I don't know for sure, I can't speak
20 for Mr. Gabriel on this, but it may be that it's
21 important for him or Mr. Sugarman or the right
22 person to start seeing you individually before
23 any meetings.

24 I mean, that's -- there is no reason -- I
25 don't think that there's a problem with that, but

1 I'll confirm that there may be -- because the
2 goal was -- to be honest, many of these questions
3 that you have, the goal was to get you answers.
4 Maybe not to all of them. I'm not sure that
5 Mr. Gabriel has the answers to all of these
6 questions, but to get you involved right away.

7 The deal really hasn't been signed for very
8 long, the tentative agreement. It's a very short
9 period of time.

10 MR. SCHEU: But, Steve, it's unfair for us
11 to have to show up for a meeting and then have
12 them -- what we need is a proposal so that we can
13 begin to ruminate on it so that we, you know, are
14 reasonably educated.

15 MR. DURDEN: That was absolutely the goal,
16 and the goal was to do it as quickly as possible.
17 And his goal was either next week or the week
18 after to get an apparent --

19 MR. BROWN: You can still send it and we can
20 start --

21 MR. DURDEN: No, no, of course. No, there's
22 no question that will be done. Mr. Sugarman will
23 get that.

24 The goal wasn't to do anything other than --
25 the agreement is not even -- I don't even think

1 it's a week old. Mr. Wyse may remember when it
2 was signed, but it's not more than --

3 CHAIRMAN TUTEN: All right. Well, I've got
4 to cut you off, Steve. God bless you. I don't
5 envy you one bit.

6 (Laughter)

7 CHAIRMAN TUTEN: You know, they just put you
8 out on the front line and just say, charge, every
9 time.

10 Okay. Everybody's got their -- what we're
11 going to work on, et cetera, et cetera.

12 DIRECTOR JOHNSON: Yes, sir.

13 CHAIRMAN TUTEN: We've got Rick's final
14 comment about dooms day scenario.

15 Moving on. Tim.

16 DIRECTOR JOHNSON: Thank you.

17 Debbie, do you need to clarify something?

18 MS. MANNING: Yes. The Consent Agenda item,
19 the entire Consent Agenda was not approved. I
20 need first motion, second --

21 MR. BROWN: I make a motion to approve the
22 entire Consent Agenda.

23 CHAIRMAN TUTEN: I thought we passed that.

24 MR. SCHEU: I thought we did that first
25 thing.

1 MS. MANNING: No, you did the summaries.
2 You did the summaries, to begin with, but I
3 didn't hear anything further.

4 MR. SCHEU: Second.

5 CHAIRMAN TUTEN: Okay. Moved and second.
6 Any questions, comments?

7 (No responses.)

8 CHAIRMAN TUTEN: All in favor?

9 (Responses of "aye.")

10 CHAIRMAN TUTEN: Opposed?

11 (No responses.)

12 MS. MANNING: And, also, we have KBLD on the
13 phone who had a prior commitment she needed to
14 be -- regarding the audit.

15 CHAIRMAN TUTEN: Okay.

16 MS. MANNING: She was priority, to be taken
17 first.

18 So are you still there, Linda?

19 MS. DUFRESNE: I'm here.

20 MS. MANNING: Hello, Linda.

21 DIRECTOR JOHNSON: We had to turn you up on
22 our end, Linda. Can you hear me all right?

23 MS. DUFRESNE: I can hear you fine.

24 DIRECTOR JOHNSON: Excellent.

25 MS. DUFRESNE: Can you hear me?

1 DIRECTOR JOHNSON: Yes, yes.

2 MS. DUFRESNE: Okay. Very good.

3 Good morning, and thank you for allowing us
4 to handle the meeting this way. We had
5 unexpected medical issues with one of our staff
6 who would have been there with you. She's doing
7 well, by the way, for those of you who may be
8 thinking about her.

9 So I would like to just go through what our
10 required discussion items are with respect to the
11 governing body, that we are communicating in
12 written form, but just to step through them
13 quickly.

14 We're required to discuss with you our
15 responsibility, which, as you know, was to audit
16 the financial statements to the qualitative
17 aspects of the accounting practices.

18 We point out that we implemented GASB 72,
19 the fair value measurement standard, and you'll
20 see some additional information in the investment
21 footnote when we step through that.

22 The most sensitive estimates are related to
23 the fair value estimates because, of course,
24 they're based on market information. And we have
25 evaluated the factors and assumptions that were

1 used and believe they're reasonable in assessing
2 their fair value as presented in the financials.

3 We encountered no difficulties dealing with
4 management, no corrected or uncorrected
5 misstatements. We had no disagreements with
6 management. We will be receiving the management
7 representation letter. We know of no other
8 consultations with other accountants, and had no
9 audit findings to present.

10 And that's basically our required
11 communications.

12 You'll see this year we also provided some
13 graphs so you would have some trend information
14 based on the last four to five years regarding
15 your fiduciary net position, your membership
16 changes, your revenues and expenses that we
17 thought would be useful in seeing what
18 comparatives exist over the last few years with
19 respect to those major items of disclosure on
20 your financial statements rather than just having
21 one year or two to look at.

22 Any questions so far?

23 CHAIRMAN TUTEN: No, ma'am.

24 MS. DUFRESNE: Okay. We'll go -- yes?

25 CHAIRMAN TUTEN: No. We don't have any.

1 MS. BROSCHE: No questions yet.

2 MR. SCHEU: I've got some questions but not
3 yet.

4 MS. DUFRESNE: Okay. We'll step into the
5 financial statements themselves then.

6 You'll see that our independent auditor's
7 report --

8 DIRECTOR JOHNSON: What page are you on,
9 Linda?

10 MS. DUFRESNE: Oh. It's on the third page.
11 You'll have the cover page, the table of
12 contents, and then the independent auditor's
13 report.

14 So the format of this changed a couple years
15 ago and provided more clarity with respect to the
16 various sections of the report and what the
17 responsibilities are of management and the
18 auditor.

19 We -- and then state our opinion, which is
20 that the financial statements are fairly
21 presented in all material respects in accordance
22 with United States generally accepted accounting
23 principles.

24 You'll see on the following page that we
25 discuss our responsibility with respect to the

1 required supplementary information, which is
2 basically that management discussion and analysis
3 and also the tables in the back of the report
4 related to statistical information with respect
5 to the pension plan, the fund.

6 And then we also point out that we have an
7 additional report that's required by government
8 auditing standards, which is also near the back
9 of the package. We'll look at that in a few
10 moments.

11 Then a management discussion and analysis
12 starts on page 3. And this points out required
13 information that, under the standards, it's
14 necessary to be disclosed. This is management's
15 document. However, you'll see that's why it's
16 unaudited at the top.

17 We do read it for context, make sure there's
18 nothing that conflicts with the information in
19 the actual audited financial, and we work closely
20 with management to make sure that it's clear and
21 includes relevant information for your use.

22 As we move on to page 7, we have a statement
23 of fiduciary net position. The following page is
24 the statement of changes in fiduciary net
25 position. These statements are laid out and

1 formatted as they were in the prior year.

2 On page 9 we start with the description of
3 the plan and move on into accounting policies.
4 The only accounting policy that was implemented
5 in the current year was GASB 72, as I mentioned
6 previously.

7 But on page 12 you'll see an outline of the
8 recently issued accounting standards and when
9 they may be applicable to the fund so that you're
10 aware of what's coming up.

11 On the bottom of page 13 we mention the
12 reserve accounts because of the ordinance that
13 was implemented.

14 And we move on to page 14, the explanation
15 of DROP, and then we get into Note 5, the
16 deposits and investments, which much of this
17 footnote is the same as has been presented in
18 prior year.

19 However, when you go through this entire
20 note and get near the end, there's an additional
21 note on page 18 regarding fair value
22 measurements. And this is related to leveling
23 your financial -- your financial investments into
24 the various categories that are explained the way
25 that each of those level's values are determined.

1 We mentioned the other receivables, which
2 is -- includes an allowance against those other
3 receivables, which is a fairly small part of your
4 entire portfolio; the net pension liability of
5 the city; and then we get into some of the
6 technical actuarial methods and assumptions used
7 on the bottom of page 19 with respect to the fund
8 itself and also the SERP is explained in these
9 following pages.

10 We may need to update the subsequent event
11 disclosure with respect to these recent events.
12 Devin and I will discuss that and determine if
13 there needs to be additional subsequent event
14 disclosures.

15 And then we get into the required
16 supplemental information, these additional tables
17 that are required to give details disclosure.

18 And the final pages are the additional
19 independent auditor's report where we assess your
20 compliance with applicable laws, regulations, et
21 cetera, and we found no instances that are
22 required as deviations for --

23 CHAIRMAN TUTEN: Hey, Linda?

24 MS. DUFRESNE: Yes.

25 CHAIRMAN TUTEN: I read your report last

1 night and it was well done, very informative.

2 MS. DUFRESNE: Thank you.

3 CHAIRMAN TUTEN: We're trying to keep the
4 meeting moving along, but we have a couple
5 questions for you. Is that okay?

6 MS. DUFRESNE: Sure. Absolutely.

7 CHAIRMAN TUTEN: Okay. We've got two
8 questions for you.

9 Go ahead.

10 MR. PATSY: Okay. Linda, on page 17, where
11 you have the fair value of the fixed income
12 securities "not rated."

13 MS. DUFRESNE: Yes.

14 MR. PATSY: That's a big number. Can you
15 elaborate as far as what comprises that "not
16 rated" bucket?

17 MS. DUFRESNE: I would need to get into our
18 work papers, which I can do, but it would -- I
19 have a rather slow connection. So I would have
20 to dug down into that number. If it's all right,
21 I can report back to Devin and he can send that
22 out to everyone.

23 MR. PATSY: Okay.

24 MS. DUFRESNE: I don't really know off the
25 top of my head.

1 Devin, do you have clarity on that?

2 MR. PATSY: Yeah. My guess is it would be a
3 Northern Trust commingled fund?

4 MR. CARTER: That's what it is. It's a
5 Northern Trust commingled fund, pretty much --
6 AA. It has commingled itself and aggregated.
7 They did pretty much rate it in the report, but
8 once we got the detailed report and looked at it,
9 that's what it consisted of.

10 MR. PATSY: Okay.

11 MR. CARTER: And then also governmental
12 bonds don't have to be reported because
13 traditionally they're --

14 MR. PATSY: Yeah. Got it. Okay. Thank
15 you.

16 MS. DUFRESNE: Okay. Does anyone else have
17 any questions?

18 MR. SCHEU: I've got three questions.

19 Linda, this is Bill Scheu. On page 7, and
20 then looking over at page 17, I think it's 17,
21 why is it that you -- this is essentially like a
22 balance sheet, as I read it.

23 Why don't you reflect as a liability the
24 unfunded pension obligation of the -- looking
25 over at the other page, was about 1.8 billion.

1 Why doesn't that show up as a liability on the --
2 essentially the balance sheet?

3 MS. DUFRESNE: That's contained in the
4 reporting. It used to be reported as a
5 liability. Now it's just rolling into your net
6 position instead of being separately presented as
7 a liability.

8 You can kind of see that on one of the
9 graphs where, in 2014, the "due to participants"
10 was changed from a liability, and it just now
11 becomes your fiduciary net position, is what's
12 available, basically.

13 MR. SCHEU: But if you look at the balance
14 sheet, we really don't have a net positive of
15 1.6 billion. We probably have a net negative of
16 negative 200 -- well, that's not right either.

17 We're in a negative position, really, not in
18 a positive position. Is that right?

19 MS. DUFRESNE: Yeah. They got it -- they
20 changed that presentation, removing that from the
21 face of the financials and presenting it in a
22 different manner.

23 MR. BROWN: Why was the reason the
24 presentation was changed?

25 MR. CARTER: It was changed because --

1 MS. DUFRESNE: Because --

2 MR. CARTER: -- they're looking at it as a
3 trust fund itself, and the fund as a whole is
4 used to pay benefits. So, therefore, nothing is
5 technically reserved. But that's why we have the
6 reserve accounts, to offset the liabilities
7 dictating what you see, what's your reserves and
8 what you have available for pension benefits.

9 MR. BROWN: Okay.

10 MR. CARTER: So that's why it wasn't
11 changed. Before, in the past, that liability
12 used to be for DROP participants. We used to
13 report a lot -- but we don't any more, but as a
14 reserve account.

15 MR. BROWN: Thanks, Devin.

16 MR. SCHEU: It just seemed a little weird.
17 Second question, you alluded to it on page
18 20 on the supplemental -- or subsequent events.

19 MS. DUFRESNE: Yes.

20 MR. SCHEU: On the pension plan for fund
21 employees, we're now -- subsequent to the report,
22 we've been sued. The city has told us that we
23 have to reduce, which we did, and that's the
24 reason for the lawsuit.

25 Two questions related to that: Do you

1 intend to footnote the litigation? And, number
2 two, are your -- are your computations in the
3 report based on the plan as stated, or the plan
4 as reduced by the city?

5 MS. DUFRESNE: It's the plan as understood
6 at 9/30/16, based on all the relevant ordinances
7 at that point. That's where we -- that's why
8 anything subsequent to that is disclosed as a
9 subsequent event. Everything that we do is
10 9/30/16 understandings at that time.

11 But let me get back to the liability too.
12 Technically a liability is something that's
13 already occurred, which may be what was in their
14 minds when they decided that really wasn't an
15 appropriate presentation and why they changed it.
16 That might have been in their minds, like it
17 would be, you know, something that had already
18 occurred at the balance sheet date.

19 But, anyway, back to your question.

20 It will not change the numbers in the
21 financials. It may just change the subsequent
22 event disclosure.

23 MR. SCHEU: Okay. But the numbers here are
24 based on this plan as stated, not as revised
25 pursuant to the general counsel's direction.

1 MS. DUFRESNE: Correct. Correct.

2 MR. SCHEU: Okay. So that probably should
3 be a subsequent event.

4 MS. DUFRESNE: Yeah, probably should be.

5 MR. SCHEU: Then on the letter that's
6 attached, which is somewhat like a management
7 letter, I noticed you-all really didn't do any --
8 I think what it says is that you did it as you
9 needed in terms of the audit, but you-all didn't
10 perform a separate management control letter so
11 that you can advise us on any deficiencies in our
12 controls. Is that right?

13 MS. DUFRESNE: Right. We don't -- we just
14 assess the controls for our own planning
15 purposes. We don't actually go into giving
16 recommendations on internal control, correct.

17 MR. SCHEU: So that at this point as
18 fiduciaries, we don't really have a valuation as
19 to whether our internal controls as far as how we
20 segregate responsibilities with respect to checks
21 that come in and go out and who does the -- who
22 does the -- et cetera --

23 MS. DUFRESNE: Right.

24 MR. SCHEU: You're not telling us -- you're
25 not giving us any advice concerning the rigidity

1 of our controls?

2 MS. DUFRESNE: No. And there's clear lines
3 also of where we can -- where we step over the
4 line into management as auditors. We have to be
5 careful about giving recommendations or helping
6 with internal control structure and then turn
7 around and audit you. It's a -- it's a line
8 there that we have to be careful of.

9 MR. SCHEU: So -- and Tim and I have
10 discussed this.

11 It would probably be helpful to us, and Bob
12 might give us some advice, is to we have some
13 sort of professional advice concerning our
14 internal controls and how we manage our money and
15 who -- who opens the envelopes, who deposits the
16 money, who does the bank statements, because we
17 don't have anything that can advise us of that.

18 CHAIRMAN TUTEN: Devin, you want to speak on
19 that as far as --

20 MR. SCHEU: And I mean somebody not within
21 the organization.

22 MR. CARTER: Sure. Pretty much with the
23 audit report, they assess our controls just upon
24 review as far as making sure the integrity of the
25 financials is correct, but they don't issue an

1 opinion on it.

2 So they do technically review it, but they
3 will not often any recommendations per se about
4 the independents.

5 We do have, of course, council auditor's
6 office, which did a follow-up on our audit based
7 upon controls itself, reviewing our processing.
8 And they gave some recommendations per se as far
9 as what we're currently doing, which is a
10 separate report itself, which they also did
11 review too.

12 MR. SCHEU: But that didn't really discuss
13 the internal controls as far as who signs checks,
14 who balances the checkbook, who does what.

15 MR. CARTER: No, it doesn't. But they
16 review it per se, but it's not issuing an opinion
17 on it unless there's a deficiency they identify
18 or unless there's room for improvement.

19 MR. SCHEU: Okay.

20 MS. BROSCHE: Linda, this is Anna.

21 MS. DUFRESNE: Oh, hi, Anna.

22 MS. BROSCHE: On page 3 of the -- with the
23 MD&A, on the third bullet point, the last
24 sentence --

25 MS. DUFRESNE: All right.

1 MS. BROSCHE: I think your decimals --
2 decimal point might need to move left a little
3 bit.

4 MS. DUFRESNE: Oh, okay. The last sentence
5 in the third bullet point?

6 MS. BROSCHE: Right.

7 MS. DUFRESNE: Okay. All right. We'll
8 check that.

9 MS. BROSCHE: It would be 0.4524.

10 MS. DUFRESNE: Okay.

11 MS. BROSCHE: On page 19, it's not
12 necessarily a question for Linda, but just me
13 coming in, being new to all this.

14 When we had our actuarial workshop and we
15 talked about the RP 2000 tables, and seeing that
16 the state dictates or says that that's what you
17 should be using, you know, I'm fine with that.

18 But then when we're disclosing in this
19 report that in prior year we used the RP 2014
20 tables, I was surprised to see that we had
21 used -- and I don't know what the outcome of
22 those things are because I haven't gone back and
23 studied after seeing this.

24 I was just surprised to see that we moved
25 from 2014 to an older.

1 MR. CARTER: Well, we moved to the newer
2 chart per the state, but since the state runs on
3 a July to June fiscal year, we missed it last
4 year.

5 So that's why we disclosed that we changed
6 the mortality table in the report, which
7 coincides with the actuary report.

8 MS. BROSCHE: Okay.

9 MR. CARTER: So we're letting you know we
10 made a change from the previous year.

11 MS. BROSCHE: Well, you made a change from
12 the previous year, but you went from a table
13 dated 2014 to a table dated 2000.

14 And like I said, I don't know anything more
15 than that just didn't seem to be the right
16 direction to go.

17 MR. CARTER: Okay. I just -- I just know we
18 referenced a table, but not to say what the year
19 was, but we'll review it just to make sure. But
20 that table should coincide with the actuary
21 report.

22 MS. BROSCHE: Okay. And that's probably
23 correct. So I'm just saying that I'm surprised
24 to see us move in that direction, but I wasn't
25 here when we went through all that.

1 MR. CARTER: Okay.

2 MS. BROSCHE: Trustee Scheu already asked my
3 question about litigation and its impact on page
4 21 that you guys are going to get back on.

5 And then on page 25, Linda, can you tell me
6 how you arrive at the contribution deficiency
7 excess calculation? How is that calculated? I
8 wasn't able to make any heads or tails of it
9 based on the other numbers.

10 MS. DUFRESNE: It's all coming from the
11 actuarial report.

12 MS. BROSCHE: Okay. So I think Devin wants
13 to answer.

14 MR. CARTER: Yeah. This is from the
15 ten-year history from the prior years where the
16 city made additional payments that went into the
17 city stabilization account. And that's where
18 they accounted for it at.

19 MS. BROSCHE: Okay. So I shouldn't be able
20 to calculate it. It's based on reporting.

21 MR. CARTER: Exactly. Yes.

22 MS. BROSCHE: Okay. Thank you. That's all
23 I have.

24 MR. BROWN: Thanks, Devin.

25 MS. DUFRESNE: Okay. Thank you. I also

1 thank Devin and all the management for assisting
2 in getting the financials and questions answers
3 and documentation provided.

4 MR. SCHEU: Do we receive this when it's
5 corrected -- supplemented, or what action do we
6 take, if anything?

7 CHAIRMAN TUTEN: What -- how much correction
8 or supplements are needed?

9 MR. SCHEU: Well, I think on the subsequent
10 events, but I don't have a -- I just -- what are
11 we supposed to do with this?

12 DIRECTOR JOHNSON: Well, I think it's your
13 discretion. She'll do a management letter now
14 after making the presentation.

15 We can amend it and bring it back to you to
16 ratify next month if you feel more comfortable,
17 or we can ratify it now on the understanding that
18 the changes will be made.

19 MR. SCHEU: I was just looking for what
20 action --

21 DIRECTOR JOHNSON: It's really up to the
22 Chair.

23 MR. SUGARMAN: Since this is the most
24 important document for your own protection that
25 comes across your -- this table every year, I

1 would prefer the former of Tim's suggestions,
2 that you see the finalized document, that you
3 approve it next month unless we meet sooner, and
4 then we provide it to the city.

5 We're going to need to have it to the state
6 by March 15th, but we can tell them it's subject
7 to Board approval and send that in -- you know, a
8 couple of days later.

9 But I will tell you when you approve this,
10 this is the most important piece of paper for
11 your own protection that you have. This shows
12 the money that came in, the money that went out
13 and that didn't wind up in your pocket.

14 So when you get the final one, please take
15 it, take it home, put it in a safe place, and not
16 to sound morbid, but tell your family where it
17 is, because somebody can sue you for breaches of
18 fiduciary duty after you're no longer here.

19 And if somebody dropped a service of process
20 off at your house against your estate, again,
21 being morbid, and somebody found this audit and
22 they found the name of the auditor and they would
23 know to call the auditor, who would then know to
24 call Tim, who would then know to call me, and
25 we'd get your estate defended. This is very

1 important. So that's why I --

2 MR. BROWN: Bob's the doom and gloom guy
3 today.

4 MR. SUGARMAN: Yeah. I'm waiting for you to
5 let me give you some good news. Maybe during the
6 attorney's report.

7 (Laughter)

8 DIRECTOR JOHNSON: Devin has a comment.

9 MR. CARTER: Yeah. Me and Linda will make
10 the corrections requested by Trustee Scheu.

11 We would disclose the Keane lawsuit, just a
12 little thorough -- of course, that came in
13 January. That's what it's stated as a subsequent
14 event.

15 And then also, too, upon your recommendation
16 itself, it's kind of 50-50, do you want us to
17 disclose the pension reform, what-not, that's
18 upcoming for the following fiscal year?

19 We can just disclose that, won't quantify it
20 because we don't know the results of it, but we
21 can just put it as a note there also so it will
22 be two along with one.

23 MR. SCHEU: That's probably a good idea.

24 MR. CARTER: Based upon additional
25 information we receive today. And then we can

1 bring that back to the next meeting to review it
2 and then vote on it.

3 DIRECTOR JOHNSON: All right. I'll bring it
4 back next month. Very good.

5 CHAIRMAN TUTEN: So we're just going to go
6 ahead, make the corrections, and bring it back
7 next month?

8 DIRECTOR JOHNSON: Yes, sir. Yes, sir.

9 All right. We've got a few items we need to
10 get to quickly. There are some members that will
11 have to leave and we want to maintain a quorum
12 for these votes.

13 So next on the agenda is Counsel's Report.
14 There's a very important opinion that we received
15 from the Sugarman firm relative to our
16 administration of DROP.

17 We had stakeholders that were questioning in
18 particular the amortization schedules that the
19 staff was using to pay out those annuity
20 payments. Questions came from Concerned
21 Taxpayers, along with City Council and our own
22 auditors.

23 The Board directed me to get an opinion from
24 Mr. Sugarman. He's done that. He's conferred
25 with the Office of General Counsel, so they're in

1 agreement with this opinion. It's briefly
2 described in your book under the tab "Counsel
3 Report."

4 And, Bob, if you wouldn't mind giving them a
5 quick summary of your recommendation, I'd like
6 the record to reflect that the Board has accepted
7 your opinion, if it's the pleasure of the
8 Chairman.

9 MR. SUGARMAN: Yes, yes.

10 In the attorney's report, I actually have
11 two bits of good news for you. One is that the
12 DROP distributions that you're making to people
13 who elect monthly payouts, which you're paid
14 biweekly, but monthly payouts, is in accord both
15 with the city ordinance that governs you and with
16 the Internal Revenue Code.

17 In other words, the pension office is doing
18 it right. They're using the right tables that
19 are provided by the Internal Revenue Code -- the
20 Internal Revenue Service, and everything is
21 proper.

22 Your procedure, what is -- your procedure as
23 it's written matches up, and as it was explained
24 to us, matches up with both the city ordinance
25 and with the Internal Revenue code.

1 My other bit of good news is that you can
2 claim mileage reimbursement for any travel, which
3 is relevant when you're living in the fifth
4 largest city in the United States and the largest
5 city in Florida, to and from pension meetings and
6 other pension business, but if you are working
7 that day, you have to deduct your normal work
8 commute from the mileage you're seeking
9 reimbursement. And the current IRS rate -- I put
10 it in the report, is 55-point something cents per
11 mile.

12 This is an administrative matter that you
13 present to the executive director for his
14 approval.

15 With that -- those two bits of good news, I
16 conclude my report.

17 DIRECTOR JOHNSON: I appreciate that.

18 So what I would like is a motion to accept
19 the opinion of the attorney as well as included
20 in that is the procedures manual that we use to
21 administer DROP.

22 Staff did some research for me and
23 identified that it was November 19, 1998, the
24 last time this Board reviewed DROP and the
25 procedures that we use to administer it.

1 So this would be for the record, a motion to
2 accept the opinion and a motion to accept the
3 procedures manual that we use to administer it.
4 Both were reviewed by Bob.

5 CHAIRMAN TUTEN: All righty. Do we have a
6 motion?

7 MR. BROWN: I'll make a motion to accept
8 both as stated by Director Johnson.

9 MR. PATSY: Second it.

10 CHAIRMAN TUTEN: We have a second by
11 Mr. Patsy. Any questions, comments?

12 (No responses.)

13 CHAIRMAN TUTEN: All in favor?

14 (Responses of "aye.")

15 CHAIRMAN TUTEN: Opposed?

16 (No responses.)

17 CHAIRMAN TUTEN: None.

18 DIRECTOR JOHNSON: Thank you, Mr. Chairman.

19 Next on the agenda, I'd like to ask
20 Dan Holmes if he would review the presentation he
21 made to the FIAC last week, in particular as it
22 relates to Eagle and Brown.

23 MR. HOLMES: Thank you.

24 The issue of reviewing Eagle and Brown
25 Capital Management or Asset Management has been

1 an issue on the agenda of the FIAC for a number
2 of months.

3 We've discussed the merits of both managers.
4 With regard to Eagle, the issue has primarily
5 been underperformance. The underperformance was
6 isolated to the first quarter of last year.
7 However, the magnitude was such that it pulled
8 down a longer term period -- a longer term period
9 performance.

10 We went through and discussed it with them
11 and made the recommendation that we believe that
12 long-term the manager is still a good manager.
13 They currently are in compliance with the
14 standards set out in the investment policy. And,
15 therefore, we recommended that Eagle not be
16 terminated.

17 The FIAC agreed and made that recommendation
18 for approval by the Board.

19 The second manager was Brown. Brown is a
20 large cap growth manager. Brown has a similar
21 issue with regard to performance. Performance
22 has been under the benchmark by a material
23 amount, especially over 2016. They also
24 underperformed in 2014, and I believe it was also
25 2012 as well.

1 They run a concentrated portfolio, so that
2 helps with that -- that either helps or hurts
3 depending on the stock selection that's going on
4 at that particular time -- or I should say the
5 effectiveness of that.

6 The FIAC discussed it, and the
7 recommendation from the FIAC to the Board for
8 adoption is to replace Brown with a Russell 1000
9 Growth Index Fund.

10 The reason for that is as follows:

11 1. You have a second active manager in the
12 portfolio. And so -- on the growth side. So you
13 have the ability to have it half actively managed
14 and half passively managed.

15 2. It will reduce fees.

16 3. It's not the same as going to the S&P
17 500, which we and the FIAC members believe is
18 overvalued. The -- there is still a decent
19 relative valuation of the growth index. And so
20 that is the recommendation to the Board for
21 adoption.

22 MR. PATSY: Question, Dan.

23 I agree on the Eagle side of the equation.

24 I understand the city looked at Brown also
25 for the same issues because they have Brown as a

1 large cap growth manager.

2 What conclusions did they come to?

3 MR. HOLMES: They voted to terminate them
4 yesterday.

5 MR. PATSY: Where are they going to put the
6 money?

7 MR. HOLMES: They're going to hire a new
8 manager, Loomis Sayles.

9 MR. PATSY: Why did they decide Loomis
10 Sayles over Russell 1000 Growth Index Fund?

11 MR. HOLMES: Because they don't have any
12 other active manager on the growth side.

13 CHAIRMAN TUTEN: We've had Brown for, what,
14 a little over three years now?

15 MR. HOLMES: I think it's longer.

16 CHAIRMAN TUTEN: November of 2013?

17 MR. HOLMES: Bear with me. I'm looking for
18 the page.

19 CHAIRMAN TUTEN: Dan, looking forward with
20 Brown's investment style, how do they look? In
21 other words, we kind of know what they did
22 looking back, but let's just say the stock market
23 turned south for a while.

24 Do they look like they'd be more of a
25 defensive play? I mean, I think three years is

1 long enough to get a picture, but it's still
2 fairly early just to, you know, can somebody.

3 MR. HOLMES: They have -- first of all, let
4 me answer the first question. They have been in
5 play since November of 2013.

6 Since inception, on a gross-of-fees basis,
7 they're under the benchmark by over 4 percent.
8 Our calculation is, is that they have to have
9 about a 15 percent excess return in one year for
10 three consecutive years, or excess return of
11 approximately 5 percent, to catch back up. So
12 they have dug themselves a pretty big hole.

13 We think that -- yes, you are correct from
14 the standpoint that passive has outperformed
15 active, especially on the growth side over the
16 past few years. That's part of the reason why we
17 wanted to get some active exposure in the
18 portfolio, and there is, because you had two
19 managers, the city had one.

20 But the second thing is, going forward, the
21 ability of active management on a large cap
22 growth side to outperform on a persistent basis,
23 on a net-of-fees basis, has been declining for a
24 while.

25 CHAIRMAN TUTEN: Right.

1 MR. HOLMES: And our point is, is that even
2 if you were to put it into another manager,
3 you've already got active manager exposure there,
4 and there was no use in paying two active
5 managers along with the fees for that.

6 And so long term, the long-term plan is to
7 increase the amount of passive exposure in the
8 domestic large cap part of the portfolio.

9 CHAIRMAN TUTEN: Let me ask you this.

10 You may not know off the top of your head,
11 but when it comes to down markets, and, yes,
12 Mr. Doom and Gloom again, but if we enter a phase
13 where we have a two, three, four year rough
14 stretch of the market, historically have active
15 managers weathered that?

16 In other words, not as much down capture as
17 a passive? Let's face it. If it's in the index,
18 you're getting the whole ride up and down, as
19 opposed to active. Maybe they don't catch the
20 ride all the way up, but maybe they don't catch
21 it all the way down either.

22 MR. HOLMES: I agree. I agree. I mean, by
23 definition, if you index, you take the index's
24 return, whether it's good or it's bad.

25 CHAIRMAN TUTEN: Right.

1 MR. HOLMES: If you have an active manager,
2 at least you have the ability to outperform
3 simply by holding some part of the portfolio --

4 CHAIRMAN TUTEN: But my question is, is it
5 worse, not necessarily with Brown, but finding an
6 active manager --

7 MR. HOLMES: You already have another one.
8 You already have one. Sawgrass.

9 CHAIRMAN TUTEN: Right, yeah. But a
10 different one besides Sawgrass because it's --
11 you know, it's -- is it worth holding on to an
12 active manager because of the downside capture?
13 Do they, say, get enough money in the bad time
14 for them to be underperforming in the good times?

15 MR. HOLMES: Over the last ten years, the
16 median manager has only outperformed on a
17 net-of-fees by a few basis points. In other
18 words, in the large -- especially in the large
19 cap growth space.

20 MR. BROWN: You mean especially, or -- what
21 are you -- so in the large cap, they've only
22 outperformed by a few basis points?

23 MR. HOLMES: A few basis points. Let me get
24 the exact number from the presentation.

25 MR. BROWN: While you're looking that up, my

1 question is, why don't we just get rid of Brown
2 altogether and go passive?

3 I mean, four years is just shy of the
4 average economic cycle, and they are
5 significantly down below the index.

6 CHAIRMAN TUTEN: Well, yeah.

7 MR. PATSY: It tends to be cyclical, passive
8 and active.

9 CHAIRMAN TUTEN: Right.

10 MR. BROWN: Well, sure. But like I said,
11 four years, we're just shy of the average
12 economic cycle. I mean --

13 CHAIRMAN TUTEN: I worry about the fact that
14 we've had such a great stock market from the last
15 time, and that the -- you know, the old tide
16 lifts all boats --

17 MR. BROWN: Yeah, that's true.

18 CHAIRMAN TUTEN: -- maybe a month with a
19 dart board will last three or four years in the
20 stock market, and you'd be a genius. We've seen
21 this before. It was in the late '90s, by the
22 way.

23 But what's going to happen now and then in
24 the coming future when this thing starts losing
25 steam and then some of the darlings are back to

1 being okay, and then people start losing money?

2 And then, like I said, the index, the only
3 thing about them is you're catching it all the
4 way down to the bottom, buddy, and you're going
5 to catch it all the way back up to the top.

6 And as a pension fund, we don't really want
7 to do that because we have to pay people money
8 every two weeks. We've got to have checks.
9 We've got to have -- so we're trying to keep from
10 going all the way to the bottom.

11 MR. SCHEU: Well, it seemed to me that it
12 was a reasonable recommendation that we begin to
13 move out of Brown and go with passive, but --

14 CHAIRMAN TUTEN: No, I don't have a problem
15 with that. I was just curious about the active
16 versus passive.

17 MR. SCHEU: But we might want -- if we do
18 want another active manager, we might -- which I
19 don't know whether we do or not, but we might ask
20 Dan --

21 CHAIRMAN TUTEN: You don't have to look up
22 the stats. Now, Dan, if you want to --

23 MR. HOLMES: My recommendation is passive.
24 That is my recommendation to the FIAC and my
25 recommendation to the Board. I think it --

1 especially on the growth side, because I think
2 over a full market cycle, median is about -- over
3 a rolling three-year period is about 70 basis
4 points on a gross-of-fees basis.

5 So now take off -- now take of the fee, and
6 the lowest fee I've seen is 40 basis points for
7 active management, so that's --

8 MR. BROWN: And that's the median active
9 manager in large cap?

10 MR. HOLMES: Yes. And then on top of it --
11 so I don't disagree with what you're saying, but
12 I'm saying that the alpha, especially in large
13 cap growth, is fleeting, and we think that you're
14 better off indexing in that part of the market.

15 MR. PATSY: My concern, Dan, is like Richard
16 pointed out, and I do agree with Rich on this,
17 which is, you know, it may come as a surprise --

18 (Laughter)

19 MR. PATSY: -- but you go back to the late
20 1990s, everybody was on the index, on the
21 bandwagon, same deal, because it was difficult
22 for an active manager to keep up with the
23 dot-coms. My concern is --

24 MR. HOLMES: Well, that was actually a time
25 when the active managers did outperform --

1 MR. BROWN: Yeah, but they --

2 MR. HOLMES: They outperformed in the
3 bubble, and then they've outperformed two short
4 periods of time since the bubble. But other than
5 that, passive has outperformed.

6 MR. PATSY: But they had to take significant
7 amounts of risk to outperform in the late 1990s
8 to do that, and they paid for it in the early
9 part of the next decade.

10 MR. HOLMES: Let me -- I'm sorry. I keep
11 cutting you off. Go ahead and finish.

12 MR. PATSY: The index is the top quartile
13 performer right now.

14 MR. HOLMES: It has been over the past three
15 to five years.

16 MR. PATSY: So my concern is, you know,
17 we've had a pretty good run since 2009. Can it
18 continue?

19 MR. HOLMES: When was the index -- when was
20 the index a bottom quartile performer?

21 MR. PATSY: Probably --

22 MR. HOLMES: It hasn't. In the large cap
23 growth, it hasn't. That's the problem. And the
24 frequency of them remaining at least median or
25 above -- let's just call it median. You know, it

1 has increased, and let me -- there's something
2 else as well.

3 Last year Brown's underperformance was
4 outside their normal tracking error.

5 MR. PATSY: Right. It was an unusual year.

6 MR. HOLMES: Yeah. The fourth quarter
7 crushed them.

8 MR. PATSY: Yeah.

9 MR. HOLMES: I agree. And it happened
10 with -- and to be fair, it happened to a lot of
11 other growth managers as well. And so --

12 MR. PATSY: It may happen to Loomis. I
13 mean, we have Loomis large cap growth in our
14 401(k), and they had a great 2015. And 2016, you
15 know, they --

16 MR. HOLMES: They gave some of them back,
17 but they still were above -- they were still
18 better than Brown and a little bit above the
19 benchmark.

20 No, I mean -- you know, the frequency
21 of, you know, Brown's stock selection
22 underperforming, I mean, there's always a -- you
23 know how it is. There's always a stock story.
24 There's always a reason why one or two names tank
25 the portfolio for a period of time.

1 My observation is, is that the sector
2 weightings being underweight to the
3 dividend-paying sectors hit most, if not all, of
4 the growth managers.

5 Brown got hit by that, but that's not the
6 sole reason they have underperformed over this
7 time period. And to be fair, they did well in
8 2015, as expected.

9 In order for them, by their own admission,
10 to catch back up or to start doing well, interest
11 rates have to go up. You have to take the
12 competition away from the dividend-paying stocks
13 in order to get the market to rotate back around
14 to cheaper sustainable growth stocks. Similar to
15 what happened in 2015.

16 Could it happen? Sure. But, again, I go
17 back to, they've dug a pretty big hole. And so
18 they're going to be around the page for quite
19 some time.

20 MR. PATSY: I'm not arguing that we
21 shouldn't replace Brown.

22 MR. HOLMES: I understand.

23 MR. PATSY: Okay. I'm -- the point I'm
24 arguing is whether we should go into an index
25 fund or not.

1 MR. SCHEU: And I heard you say that your
2 recommendation is to go passive, but here it was
3 half and half.

4 MR. HOLMES: And I -- during the course of
5 the meeting, I made that recommendation and I
6 told them specifically that's what I thought I
7 could get away with. I didn't think that I would
8 be able to have the committee approve all
9 passive. And to my surprise, they unanimously
10 approved going all passive.

11 MR. SCHEU: That's our committee?

12 MR. HOLMES: Your committee.

13 MR. SCHEU: So our committee has done that.

14 MR. BROWN: Our committee has said to
15 replace Brown completely with the passive.

16 MR. SCHEU: So can we get a motion so we can
17 act on it?

18 CHAIRMAN TUTEN: Well, the debate is, and
19 while I appreciate the committee's input, but I
20 don't happen to agree with our own committee on
21 this case.

22 We've got \$260 million right now in the S&P
23 500 Index Fund. Okay. That's passive. We're
24 going to put half of this, which is another
25 42- -- we're looking at \$300 million.

1 MR. HOLMES: No, that's not going into the
2 S&P. That's going into the Russell 1000 Growth.

3 CHAIRMAN TUTEN: Well, that's fine. But I'm
4 talking about just index in general.

5 In other words, we've only got Neuberger,
6 which is active, and then we'll have Sawgrass,
7 which is active, and we've got WEDGE. In other
8 words --

9 MR. BROWN: Well, the whole point being,
10 though, that it's large cap investments and it's
11 very hard to --

12 CHAIRMAN TUTEN: I understand. And that's
13 in good times especially. The problem is we've
14 had eight years of good times now and we're up
15 into stratospheric levels.

16 Like I said, I was on the job in 1999 --

17 MR. BROWN: I know.

18 CHAIRMAN TUTEN: -- when guys wanted to buy
19 Horizon for a thousand dollars a share.

20 What I'm saying is, I'm worried that in the
21 inevitable future, which is coming on us, if we
22 ride the wave all the way down versus having an
23 active manager who's going to cost us --

24 MR. SCHEU: I hear that. I just want to get
25 something going because I have to leave to go to

1 this funeral.

2 And so I would like a motion that we could
3 then discuss and vote on rather than just have
4 this big discussion.

5 MR. PATSY: See, I'm not sure we're at that
6 point.

7 MR. SCHEU: Then that's fine.

8 CHAIRMAN TUTEN: Well, I don't mind -- I
9 think we're all in favor, okay, doing -- getting
10 rid of Brown, but we've got people deciding
11 whether we should go with an active manager
12 replacement or index.

13 MR. SCHEU: Right.

14 CHAIRMAN TUTEN: I'm for active. I think
15 we've got enough index funds here with our large
16 cap stuff to choke a horse.

17 MR. SCHEU: So then Dan's recommendation
18 sort of eases us in that so we keep half active
19 while he searches for another active manager.

20 Is that what you're saying?

21 CHAIRMAN TUTEN: That would be fine.

22 MR. SCHEU: So I would then move that we
23 take his recommendation to keep Brown as to half
24 and move the other half, but that we instruct him
25 to look for another manager with the view of

1 replacing Brown.

2 MR. PATSY: We going to incur a transaction
3 cost if we terminate Brown and move it someplace
4 else. And then, fine, go look for an active
5 manager and then reverse that.

6 MR. SCHEU: Yeah, that's true.

7 MR. PATSY: So can we defer this to March,
8 give you an opportunity to do the analysis on a
9 large cap growth option?

10 MR. HOLMES: Sure.

11 MR. PATSY: Does that make sense?

12 MR. SCHEU: I withdraw my motion.

13 CHAIRMAN TUTEN: I think you're right, Rick.

14 MR. PATSY: That we defer this until March,
15 give Dan the opportunity --

16 MR. HOLMES: So to be clear, I want the
17 Board to know that's against my recommendation.

18 MR. BROWN: Which part? I'm sorry. Say it
19 again.

20 MR. HOLMES: To do a search for a second
21 active large cap growth manager.

22 MR. PATSY: To be honest with you, I get
23 your point about Sawgrass. But I'm not 100
24 percent convinced that Sawgrass is the right
25 solution either.

1 MR. HOLMES: Okay.

2 MR. PATSY: Their fee structure is much more
3 amenable than your normal large cap growth
4 manager, but, you know, even on their reduced
5 fees, they --

6 MR. HOLMES: Let me also mention, I don't
7 know if I can include Loomis in the search
8 because they're technically closed. And, you
9 know, I can call and see if they would entertain
10 the PFPF portfolio as well.

11 MR. PATSY: Okay.

12 MR. HOLMES: Since they're getting ready to
13 close or I think they're coming up on a hard
14 close, even for current client assets to put more
15 money in. Coming in March or April, the ability
16 to negotiate fees and allocate fees across both
17 of them is probably going to be limited. But
18 there's a world of opportunity out there other
19 than just that manager.

20 MR. PATSY: Right. And I understand that.
21 I understand that.

22 MR. HOLMES: We actually had one manager --

23 MR. PATSY: But I think we ought to ask the
24 question.

25 MR. HOLMES: Fair enough.

1 MR. BROWN: So, Bill, are you in favor of
2 keeping active?

3 MR. SCHEU: I would want -- I think my basic
4 inclination is to move to passive.

5 MR. BROWN: Me too. Absolutely.

6 MR. SCHEU: I really do feel that way.

7 MR. SUGARMAN: You are going against the
8 recommendation of your consultant and of your
9 committee that studied this. That means you're
10 taking personal responsibility for this.

11 Before you take on this responsibility,
12 could you please get some more documentation to
13 support your decision?

14 MR. BROWN: Well, I think that's what we're
15 asking --

16 MR. PATSY: But that's -- that's what we get
17 paid the big bucks for.

18 MR. SUGARMAN: That's right. That's right.

19 MR. BROWN: I just don't know how we're
20 going to justify keeping active.

21 CHAIRMAN TUTEN: But the committee is there
22 for simply support, for advice.

23 MR. PATSY: Right.

24 CHAIRMAN TUTEN: They're not there -- they
25 don't perform any sort of investment analysis

1 that I can take to the bank. I mean, let's face
2 it, nice guys. They're smart. But --

3 MR. SCHEU: That's why the reform put them
4 in there.

5 CHAIRMAN TUTEN: Right. And -- but we have
6 a consultant for a reason, but --

7 MR. PATSY: As a consultant, he's going
8 through the same thought process you are, Bob.

9 He's got to document and substantiate his
10 recommendation, and maybe his gut feel is not
11 consistent with this. I don't know.

12 MR. SUGARMAN: Well, that's my concern.

13 MR. PATSY: He's not going to tell us that.

14 MR. SUGARMAN: No. He said, you're going
15 against my recommendation. He put that on the
16 record.

17 CHAIRMAN TUTEN: But it's just that. It's a
18 recommendation, and Boards have gone against
19 recommendations for God knows how many times --

20 MR. SCHEU: But his recommendation was a
21 little ambiguous because he said his
22 recommendation really was to go all passive, but
23 he didn't --

24 MR. BROWN: His official recommendation to
25 us is -- you know, a little confusing --

1 MR. SCHEU: -- he didn't think they could
2 get that passed, but he was surprised that the
3 investment committee voted to do that. So he
4 doesn't know what his recommendation is either.

5 MR. SUGARMAN: Okay. We know what the
6 committee recommended. What we need is a firm
7 recommendation from the consultant.

8 MR. BROWN: Okay.

9 MR. SUGARMAN: One way or the other, or
10 alternatives. You can go this way. You can go
11 that way. These are the advantages and
12 disadvantages of each.

13 CHAIRMAN TUTEN: But isn't that kind of
14 where it stood, as a Board of Trustee, that's the
15 latitude they give you according to the state?
16 In other words, hey, kids, you're big boys, make
17 a decision. Sometimes you're going to be right.
18 Sometimes you're going to be closer to wrong.

19 It's a guessing game. No investment
20 manager, no consultant, no Genie can tell me 100
21 percent what the best investment decision is ever
22 going to be, Bob.

23 MR. SUGARMAN: I agree with you there.
24 But -- but if you were challenged for making this
25 decision, he said, why did you go against the

1 recommendation of both your committee and your
2 consultant, we need more on the record to
3 substantiate why you did that. We just need
4 more -- you have to be able to answer that
5 question.

6 CHAIRMAN TUTEN: Dan's already told me that
7 the history of an active versus passive manager
8 is essentially a wash when it comes to fees, when
9 it comes to performance. It just depends on who
10 you like, why, this, that and the other.

11 So pretty much I'm already covered. I may
12 not have picked the best bet, but I picked
13 somebody who was that much more terrible than
14 passive, got I've got my butt covered, Bob. I
15 promise you, buddy.

16 MR. SUGARMAN: Well, what I heard you say,
17 Mr. Chairman --

18 MR. SCHEU: I make a motion that we
19 acknowledge the receipt of our advice from the
20 investment committee and our somewhat uncertain
21 advice from the investment manager. I'm -- I
22 don't want to -- I'm not castigating --

23 MR. HOLMES: I know.

24 MR. SCHEU: -- and that we need more
25 information and more depth to that

1 recommendation, including advice concerning other
2 potential active managers and an appropriate
3 comparison, and that, therefore, we defer this
4 until our March meeting.

5 In other words, we don't take a position
6 yet.

7 MR. PATSY: I'll second that.

8 CHAIRMAN TUTEN: All right. We have a
9 motion. We have a second. Any further
10 questions?

11 (No responses.)

12 CHAIRMAN TUTEN: All in favor?

13 (Responses of "aye.")

14 CHAIRMAN TUTEN: Opposed?

15 (No responses.)

16 MR. SUGARMAN: Could I ask based on what I
17 heard, the chairman is concerned with -- what I'm
18 hearing you say is you're concerned with downsize
19 capture. In other words, you believe --

20 CHAIRMAN TUTEN: Downside protection.

21 MR. SUGARMAN: Downside protection. That's
22 right.

23 And so what we're going to need, because
24 that's the trustee's concern, out of the
25 recommendations, you're not sure that proper

1 attention has been paid to downside protection.

2 So in your recommendation and possible
3 search of managers, could you please give us a
4 comparison, number one, of downside protection
5 between active management and passive management.

6 And, number two, to highlight the downside
7 capture of any candidate -- investment management
8 candidates that you recommend. That way we
9 can --

10 MR. HOLMES: That's standard in our report.

11 MR. SUGARMAN: Right. And I know that's in
12 here anyway.

13 And now that gives us the basis -- you're
14 right. It's on the record, but I want -- I want
15 to kind of crystallize it. And the trustees are
16 concerned with downside protection at this point
17 in the market.

18 CHAIRMAN TUTEN: Perfect.

19 MR. PATSY: Yes, it's important that we grow
20 the fund. But preservation of capital --

21 MR. SUGARMAN: Exactly.

22 MR. PATSY: -- is important as well.

23 MR. SUGARMAN: Okay.

24 MR. SCHEU: So we need to vote on that
25 motion?

1 CHAIRMAN TUTEN: I think we did, didn't we?

2 MR. SCHEU: We did, to defer.

3 MS. MANNING: What about Eagle? Did you
4 defer Eagle? What are you doing on Eagle?

5 MR. SCHEU: We're not taking action on that.

6 CHAIRMAN TUTEN: We voted on it.

7 MR. BROWN: Not Eagle.

8 MS. MANNING: You have not --

9 CHAIRMAN TUTEN: Yeah. Said to ignore the
10 advice, da-da, da-da, da-da.

11 MS. MANNING: No, that was on Brown.

12 MR. HOLMES: It would be a motion to accept
13 the recommendation of the committee.

14 MR. PATSY: We can accept it, but we're not
15 adopting it.

16 MR. HOLMES: No, with regard to Eagle.

17 MS. MANNING: Eagle.

18 MR. HOLMES: To retain Eagle.

19 MR. PATSY: Okay. I'm sorry. I'm sorry.
20 You're right.

21 CHAIRMAN TUTEN: Okay. So we're basically
22 keeping Eagle and that's the motion from the
23 advisory committee, right?

24 MR. BROWN: Yeah.

25 CHAIRMAN TUTEN: We have a motion.

1 MR. PATSY: Second.

2 CHAIRMAN TUTEN: Second. Any questions,
3 comments?

4 (No responses.)

5 CHAIRMAN TUTEN: All in favor?

6 (Responses of "aye.")

7 CHAIRMAN TUTEN: Any opposed?

8 (No responses.)

9 CHAIRMAN TUTEN: Perfect.

10 MR. SCHEU: I've got to go to this funeral.
11 You got anything else we need to act on?

12 CHAIRMAN TUTEN: Tim?

13 DIRECTOR JOHNSON: It's up to you,
14 Mr. Chair. We have an Abel/Noser recommendation
15 relative to commission recapture. And if you'd
16 like, we can postpone it until next month.

17 CHAIRMAN TUTEN: Do you-all want to talk
18 about commission recapture?

19 MR. SCHEU: I would like to, but can we
20 defer that until next month?

21 DIRECTOR JOHNSON: We can hold it?

22 MR. CARTER: Let's hold it.

23 DIRECTOR JOHNSON: All right. We'll hold it
24 until next month.

25 MR. SCHEU: Thank you. I'm sorry I have to

1 leave.

2 CHAIRMAN TUTEN: That's fine, Bill. Take
3 care, brother.

4 All right. We're going to hold off on that.
5 Paul, did you need to speak on it?

6 MR. DARAGJATI: No.

7 CHAIRMAN TUTEN: And I'll tell you what.
8 The next time, what we talked about with the
9 security lending program, kind of put that in
10 there with it.

11 DIRECTOR JOHNSON: That's fine. All right.

12 CHAIRMAN TUTEN: That way we can all do it
13 at the same time. I have some concerns about the
14 securities lending part.

15 All right. Anything else, Tim?

16 DIRECTOR JOHNSON: I think that's it. We
17 don't have a quorum now. We haven't gone over
18 the monthly financial report. If the members
19 want to get that update, you can.

20 MR. BROWN: How do we not -- how do we not
21 have a quorum with three us?

22 DIRECTOR JOHNSON: I'm sorry. I'm sorry.
23 You do have a quorum.

24 CHAIRMAN TUTEN: Well, as far as the
25 investment report, please don't take this wrong

1 Dan. I read everything yesterday.

2 Do you-all have any questions or comments?
3 We're dealing basically with a -- let me ask you
4 a quick question.

5 Are there any other managers, and I don't
6 think there is, that are on the radar for
7 underperformance?

8 MR. HOLMES: No.

9 CHAIRMAN TUTEN: Okay.

10 MR. HOLMES: There are a couple -- there are
11 a couple managers that had a tough year last
12 year. The only other domestic equity manager
13 that had a tough time was -- oh, I'm sorry. My
14 mind just went blank.

15 It was Pinnacle. They had an outstanding
16 January and it's green across the page. So there
17 were two sectors that hurt them last year and
18 they turned around in January.

19 So long-term, net of fees, they're above the
20 index and the benchmark and they're in compliance
21 with the policy.

22 CHAIRMAN TUTEN: When you do the Brown, can
23 you do me a favor? Just do an overall historical
24 active versus passive.

25 MR. HOLMES: Yeah. I gave Mr. Patsy a

1 presentation that I've been using for the past
2 couple of months for the committee.

3 CHAIRMAN TUTEN: Oh, okay.

4 MR. HOLMES: I'll rehash some of that for
5 the Board's edification.

6 MR. PATSY: Can you send that to us
7 electronically?

8 MR. HOLMES: Well, some of it needs to be
9 updated. That's an old version.

10 CHAIRMAN TUTEN: Okay. I gotcha. I saw
11 some of this.

12 MR. HOLMES: Yeah. And so I think the key
13 take-away there is just the magnitude of
14 outperformance by active managers has gone down,
15 and the persistency -- in other words, how often
16 they're outperforming has gone down as well.

17 And so, as you know, our view is some areas
18 are more keen for passive and some more active.
19 And so we just want to kind of get off the
20 dance -- you know, stop playing the dance and
21 save some fees.

22 CHAIRMAN TUTEN: Well, I understand that.
23 But in my opinion, relative -- if fees, if you're
24 still coming out ahead net of fees, if you've
25 still got somebody on the phone that you can

1 call, hey, what's going on, and if the downsize
2 capture is not a hundred percent or 98 -- in
3 other words, if they're not acting like an index
4 fund when the down market hits -- now, it's been
5 so long since we've had a down market, I think
6 people have sort of forgotten what that's like.
7 I think we're about to learn shortly, probably
8 within the next six months to a year.

9 MR. PATSY: We hired Loomis for our 401(k).

10 MR. HOLMES: They're doing well.

11 MR. PATSY: Yeah. The thing that stood out
12 to me is the performance in 2008. They
13 outperformed the benchmark by a thousand basis
14 points.

15 Then in 2009, they rebounded and
16 outperformed the benchmark again, and that's
17 highly unusual. Normally they're protecting on
18 the down side in a falling market. That's
19 obviously good, but they rarely outperform on the
20 way back up --

21 CHAIRMAN TUTEN: Right.

22 MR. PATSY: -- and they did that. They're
23 similar to Brown, and they're a very concentrated
24 portfolio. But they will hold positions for
25 years. For a large cap growth manager, their

1 turnover is dismally low. It's someplace in the
2 15 to 20 percent. And you don't see that in
3 large cap growth.

4 Normally you see a much higher turnover as
5 these guys change their minds and performance
6 changes. Large cap growth is also susceptible to
7 momentum --

8 MR. HOLMES: And that's captured in the
9 index as well.

10 MR. PATSY: Very strongly.

11 MR. HOLMES: Right.

12 MR. PATSY: You know, you can sit there and
13 criticize the S&P 500, but the S&P 500 is a
14 cap-weighted index and it has a very strong
15 growth bias.

16 MR. HOLMES: Exactly.

17 MR. PATSY: So, you know, taking money out
18 of an active large cap growth manager and putting
19 it into the Russell 1000 Growth, you know, how
20 different is that than the S&P 500? I know that
21 the correlation --

22 MR. HOLMES: The peg ratio is different.
23 You know, but right now, because we're pricing
24 it, the PEG ratio is pretty different.

25 But the bottom line is we will prepare

1 options for the Board and then make a
2 recommendation.

3 CHAIRMAN TUTEN: 10-4. Sounds splendid.
4 Anything else, guys?

5 All righty. Bob, you're fine?

6 MR. SUGARMAN: Good. Thank you.

7 CHAIRMAN TUTEN: Tim, you got anything else?

8 DIRECTOR JOHNSON: I've got nothing.

9 MR. SUGARMAN: Actually I do. I have one
10 more thing to say.

11 And that is I want to end our discussion
12 about the proposed collective bargaining
13 agreement and changes, that they did show
14 deference to us and to our role and to our rights
15 in the agreement that was made by saying that
16 things have to be done.

17 So I believe that the city has shown proper
18 deference. Now they'll just have to understand
19 the procedures we need to follow and how long
20 they might take.

21 CHAIRMAN TUTEN: That's good.

22 Anna, you got anything you want to say?

23 MS. BROSCHE: No, nothing.

24 CHAIRMAN TUTEN: All right. At 10:50,
25 meeting adjourned.

1 (The meeting concluded at 10:50 a.m.)

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3 CERTIFICATE OF REPORTER

4 I, Denice C. Taylor, Florida Professional
5 Reporter, Notary Public, State of Florida at Large,
6 the undersigned authority, do hereby certify that I
7 was authorized to and did stenographically report the
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10 transcription of my stenographic notes taken at the
11 time and place indicated herein.

12 DATED this 3rd day of March, 2017.

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16 Notary Public in and for the
17 State of Florida at Large

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