JACKSONVILLE POLICE AND FIRE PENSION FUND

BOARD OF TRUSTEES MEETING

DATE: August 12, 2016

TIME: 9:00 to 10:15 a.m.

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

BOARD MEMBERS PRESENT:

Richard Tuten, III, Board Chairman
Willard Payne, Trustee
Chris Brown, Trustee
William Scheu, Trustee

STAFF PRESENT:

Tim Johnson, Executive Director
Beth McCague, Interim Executive Director
Debbie Manning, Executive Assistant
Paul Daragjati, Board Counsel
Dan Holmes, Summit Strategies Group
Matt Jelinek, Summit Strategies Group

CITY REPRESENTATIVES PRESENT:

Joey Greive, City Fund Treasurer

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

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BOARD MEETING

August 12, 2016 9:00 a.m.

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CHAIRMAN TUTEN: Before we get started, I'd like to just reiterate our mission statement here at the top of the agenda.

"To provide long-term benefits to participants and their beneficiaries."

With all the stuff we deal with on a daily basis, I think it's important not to forget that that's what we're here for.

All righty.

MS. McCAGUE: First we'll do a moment of silence here for our deceased members. Those are on page 2.

CHAIRMAN TUTEN: We'll have a moment of silence for Edward Brackett, Sr., retired fire lieutenant; Johnny Rowe, retired fire lieutenant; Clarence Tompkins, police sergeant; James Costner, Jr. -- he was actually an active firefighter -- and Clyde Dyer, Jr. He was a retired firefighter.

(Pause)

CHAIRMAN TUTEN: All right. We'll do the pledge of 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.

Public speaking. Do we have -- I don't think we have anybody.

MS. McCAGUE: Let the record reflect there are no public speakers.

CHAIRMAN TUTEN: Yay.

MR. JOHNSON: At this time.

CHAIRMAN TUTEN: Tim's starting off easy, isn't he?

MR. SCHEU: Move we close the session.

(Laughter)

CHAIRMAN TUTEN: Maybe they just don't like me. Whatever. Whatever works.

MS. McCAGUE: And the next -- I want to introduce a special guest we have from Summit Strategies. You all know Dan Holmes, but he brings with him one of his support folks who works very closely with some of our team. It's Matt Jelinek. This is the first time he's been with us.

So, Matt, thank you. We look forward to hearing from you.

MR. JELINEK: Thank you. Happy to be here.

MS. McCAGUE: Delighted to have you.

And now I want to introduce to the Board -- he needs no introduction to you-all, but this is our new Executive Director, Tim Johnson. And he's been with us now -- this is the end of his second week and we're delighted to have him.

I would just a word before we let him say a couple of words. One: Just so you understand, Tim has asked that this Board meeting, we hold it the same way we hold all of our Board meetings. He's more observing this time than participating, and then September, he will be working closely with our chairman, running the meeting.

But you-all remember when you were kind enough to allow me to be your Interim Executive Director, I came in with a business -- business perspective, and my goals were to restore broken relationships with city officials and city leaders, to work on the health of the fund, to improve efficiency, and to find a permanent replacement.

And in terms of efficiency in the operations, I came with a business perspective, not a pension perspective because I've never worked in pension, and I think we've done a good job at a very high level of strategic actions.

Tim has pension experience. So it's wonderful to work with him because he knows exactly what should be done. And so he's already looking at our practices and our processes, questioning in the right way, are we using best practice to make sure that we are not just efficient but accurate in what we're doing and how we're doing it.

And so that tells me that going forward, this plan will continue to improve in every way, and will be something that the whole community will be extremely proud of.

So I'm delighted that he's here and have enjoyed working with him and will continue to work with him as long as he needs me.

So, welcome, Tim.

DIRECTOR JOHNSON: Thank you, Beth.

Beth is a hard act to follow. Beth and I have been on the road now for two weeks. We've probably met on average three stakeholders a day, whether they're representatives of the sponsor, the mayor's office, counsel, other leaders in the community, our advisors and Board members.

And to the person, every place I've gone, they've complimented Beth and the great job that she's done.

I don't think that I would have the opportunity to be successful going forward if it weren't for the foundation that Beth laid. So I'm happy about the fact that later on in the agenda, I'll be asking for a motion that we extend Beth's contract for a period of up to 90 days to help make a smooth transition.

I also want to confirm my dedication to this Mission. I think our members and their beneficiaries are critical. We have an obligation to ensure that every member receives the benefit that they're entitled to. So I want to confirm my commitment to that as well.

And then going forward, I'll tell you, I have felt really welcome here in Jacksonville. I'm looking forward to a long, positive, successful time here in this city, and I appreciate all your support.

So with that, I'll turn it back over to Beth, and we'll get back to the agenda.

MS. McCAGUE: And, Mr. Chairman -- thank you, Tim -- we'll go to the Consent Agenda items then.

CHAIRMAN TUTEN: All right. We have the Consent Agenda. It's the usual stuff. Is there anything that jumps out by anybody?

All right. Do we have a motion to accept the Consent Agenda?

MR. SCHEU: So moved.

MR. PAYNE: Second.

CHAIRMAN TUTEN: We have a motion and a second.

Call for discussion, questions. Okay.

All in favor?

(Responses of "aye.")

CHAIRMAN TUTEN: All right.

MS. McCAGUE: I would make one note on that last item on Consent Agenda, Educational Opportunities, especially for our new Board members.

The State of Florida hosts a pension education for new Board members and they do it twice a year. This one coming up is in November in Orlando. It's the 2nd through the 4th.

They also host one in Tallahassee in the springtime. But I would ask you new Board members to take a look at your calendars to see if you could get that on your calendar.

Sorry, Mr. Chairman. Now Old Business.

CHAIRMAN TUTEN: Oh, that's fine. We passed it.

We have Old Business. We have a legal update with Paul.

MR. DARAGJATI: The only update I can give at this point is on NII Holdings. And to remind the Board, we have several securities litigation cases going. We have Tower. We have CVB and we have NII and we have Plains All American.

On NII, the attorneys representing the fund submitted to Beth an affidavit to be submitted for their final hearing.

In these litigation cases, securities litigation cases, they're both class actions, and before any disbursement happens, in every class action case there's a final hearing where all the stakeholders are given the opportunity to voice their concerns to the Court before the Court gives its final judgment on it. And we're getting close to that point in NII. There's nothing more to say on that.

MS. McCAGUE: Okay.

CHAIRMAN TUTEN: Good.

MS. McCAGUE: We don't need action on that.

It's just a report.

MR. DARAGJATI: Yeah. It's just information only.

CHAIRMAN TUTEN: Okay. Next up we have the Budget.

MS. McCAGUE: And I'll give the Budget presentation. Devin usually gives this.

And you'll remember, he's been saying month after month we have very favorable, strong, very favorable variances to our budget.

And then in July we made our payments on the outstanding lawsuits. So we paid $415 (sic) to Bob Dees' firm, and then we paid $156,000 to George Gabel's firm.

So 571,000 hit the books this month. And you'll see that in Operating Expenses, Administration.

So we are now -- this is through July, and we have August and September. We are going to be very, very close as we roll into September. We think we can come in just at budget, but it is going to be very tight.

I'll remind the Board, normally we could not absorb a number like this, and we did not budget for losing these cases. How we were able to cover this was several things.

Number 1: We did not have the executive director's previous salary, which was much higher than you have paid year-to-date for me being here.

And then, also, we have leave time that he had accrued that was budgeted to be paid this year. But, actually, since he left last year, it was paid last year.

So those were two big pieces that helped us cover this this year and allows us to come in at budget.

The only other thing I'd say is that you'll see in Operating Expenses, building and parking, we were over for the month considerably, and that has to do with the insurance, the annual insurance payment that we made.

CHAIRMAN TUTEN: Did the insurance go up or anything or it just --

MS. McCAGUE: No. Actually, we reduced the insurance, but we just make one annual payment.

CHAIRMAN TUTEN: I gotcha.

MS. McCAGUE: And, so, yes, we went with the new carrier through Cecil Powell, and we were able to reduce about $3,000.

CHAIRMAN TUTEN: So the budget, really, I mean, for the end of the year really should be mostly dependent on investment fees with the managers, or do we --

MS. McCAGUE: Yes, that's exactly right, because those fees come in on a staggard basis. But, yes, all the other expenses are under control.

CHAIRMAN TUTEN: All right.

MS. McCAGUE: Any other questions?

Okay. Report submitted.

CHAIRMAN TUTEN: On to the Consulting Agreement with Beth.

Tim.

DIRECTOR JOHNSON: So you'll notice under tab Number 3 in your Board book an extension of the agreement with McCague & Company.

Currently Beth's contract expires at the end of August, and I'm recommending to the Chair that we extend that contract for a period of up to three months, from September 1, 2016, through November 30, 2016, at my discretion, working with Beth on some close-out projects and engaging her on an hourly basis.

So it's not likely that she'll be here full time for 90 days, but she'll be here on an as-needed basis, helping to transition from her administration to mine.

The rate is the same as the hourly rate that's being given in consideration now. And I would ask the Board that it would consider a motion to approve this agreement to extend the contract with McCague & Co. for up to 90 days.

MR. PAYNE: So moved.

MR. SCHEU: Second.

CHAIRMAN TUTEN: All right. We have a motion and a second. Any discussion?

(No responses.)

CHAIRMAN TUTEN: All in favor?

(Responses of "aye.")

CHAIRMAN TUTEN: Any opposed?

(No responses.)

CHAIRMAN TUTEN: Good. It passes.

MS. McCAGUE: Okay. Thank you.

And you can move on now, Mr. Chairman, to New Business.

CHAIRMAN TUTEN: Just don't show up too much.

(Laughter)

CHAIRMAN TUTEN: We've got this budget we're trying to pass.

MS. McCAGUE: I knew somebody would make that connection.

(Laughter)

CHAIRMAN TUTEN: All right.

New Business. Resolution for Center State Bank.

MS. McCAGUE: Yes.

On these next two items, we're adding Tim Johnson to our list of signatories for Center State Bank, which is our local bank for the small checks that we write, and our custodian and several of our money managers.

And this will make our staff's life much easier. It will make your life much easier because we won't have to be calling you down here to sign things or running out to your office and interrupting your work.

CHAIRMAN TUTEN: Perfect. Do we need a motion?

MS. McCAGUE: Yes, we do.

MR. BROWN: Motion.

MR. SCHEU: Second.

CHAIRMAN TUTEN: Motion and a second.

Any discussion?

(No responses.)
CHAIRMAN TUTEN: All in favor?
(Responses of "aye.")
CHAIRMAN TUTEN: Any opposed?
(No responses.)
CHAIRMAN TUTEN: It passes.
MS. McCAGUE: Excellent.
CHAIRMAN TUTEN: Okay. Authorized signature forms updated. Was that part of that motion?
MS. McCAGUE: That was a part of that motion. That was part of that motion, right, for Center State Bank and the authorized signatures for those three relationships.
CHAIRMAN TUTEN: 10-4. Okay.
Now we come to the good stuff. Summary Plan Description.
MS. McCAGUE: By law, we need to produce a Summary Plan Description every two years. And the -- we especially needed to produce a new one as a result of pension reform, which was signed June 2015.
So as you know, this has been delayed through the end of the year. We have worked on it, and I'm so happy that it is in the book. It was approved by our staff, of course, and by

attorney Bob Klausner, and this will -- this will be distributed to new recruits and it's also available on our website.

It is not the be-all and end-all. The be-all and end-all is the law that this summarizes. But it is an easy reference guide for our members.

So this one, even though it was just produced now, we're putting the expiration date, September 30, 2017. And that is because we expect that there will be negotiations that will have taken place as a result of the surtax passing. And once we know what the new plan will look like, we'll need to go right away into the creation of the new summary document.

So we put that September date on there as a deadline for ourselves to remind us to stay on top of that.

You-all have seen -- have a chance to review this. And if there's any questions, we'll be happy to take it.

MR. SCHEU: Do you need to approve it?

MS. McCAGUE: We do.

MR. SCHEU: I'll move that we approve.

MR. PAYNE: Second.

CHAIRMAN TUTEN: Did you second, Chris?
MR. PAYNE: I did.
CHAIRMAN TUTEN: All righty. We have a motion and second. Any discussion?
(No responses.)
CHAIRMAN TUTEN: All in favor?
(Responses of "aye.")
CHAIRMAN TUTEN: Opposed?
(No responses.)
MS. McCAGUE: Thank you.
CHAIRMAN TUTEN: Okay. We have two applications for disability retirement. Is either person here?
MS. McCAGUE: No. Both these individual applications went before the advisory committee earlier this week. One had been reviewed by our former medical service director, Dr. Baker, when he was still in place. The other was reviewed by our new medical services director, Dr. Greene.
Dr. Greene and Dr. Baker both gave very strong recommendations that these be approved for disability, and our advisors agreed.
Debbie, do you have anything to add there?
MS. MANNING: No, ma'am.
MS. McCAGUE: Okay. So we do need approval

on each of those.

MR. BROWN: Do we have any details on those -- either one of them? Is it physical disability? Is it mental illness?

MS. McCAGUE: One is a physical disability, a back problem. The other is a mental disability.

MR. BROWN: And on the physical disability, the back problem, clear connection between the job and the injury?

MS. McCAGUE: Well, it wouldn't matter because, according to our pension guidelines, our pension law, it doesn't matter if your injury is on or off the job. You are eligible for disability unless --

MR. BROWN: I'm sorry. I guess subsequent to the hiring of the employee, though?

MS. McCAGUE: That's my understanding, yes. But the injury does go back a long way.

MR. BROWN: Okay. And the mental -- the other one, I'm guessing, is mental-illness related?

MS. McCAGUE: Yes.

MR. BROWN: Okay. And the person that signed off on the disability for the person who, I supposed, gained this mental illness during their career, is this our -- is the same doctor that signs off on the physical disability?

MS. McCAGUE: Yes. Right.

MR. BROWN: Okay.

MS. McCAGUE: Now, in this case because we were transitioning from -- it's the same medical firm, but from Dr. Baker, who was retiring, to Dr. Greene.

Actually, Dr. Baker signed off on one and Dr. Greene signed off on the other, but it was the same cardiovascular firm that reviewed it.

MR. BROWN: Okay.

CHAIRMAN TUTEN: All right. We need to do these separately.

MS. McCAGUE: Yes. Thank you.

CHAIRMAN TUTEN: We need a motion for Mr. Gray first.

MR. PAYNE: I move.

MR. BROWN: I'll second.

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

(No responses.)

CHAIRMAN TUTEN: All in favor?

(Responses of "aye.")

CHAIRMAN TUTEN: Opposed?

(No responses.)

CHAIRMAN TUTEN: Now we need a motion and a second for Mr. Sheldon.

MR. BROWN: Motion.

CHAIRMAN TUTEN: Got a motion.

MR. SCHEU: Second.

CHAIRMAN TUTEN: And a second.

Any discussion?

(No responses.)

CHAIRMAN TUTEN: All in favor?

(Responses of "aye.")

CHAIRMAN TUTEN: Opposed?

(No responses.)

CHAIRMAN TUTEN: That's done.

Okay. Financial/Investment Reports.

Dan, you're up, pal.

MR. HOLMES: Good morning.

So the first issue that we have is the Monthly Capital Market Update. I've been asked to kind of skim through that and not go into a bunch of detail.

The June report that you have in front of you ends with, unfortunately, the end of June, which was marked by Brexit.

As a result, what we saw were dampened equity returns for the month. Since then, what we've seen in the month of July is stronger, much stronger, equity returns.

So, you know, there's concern that we'll make the actuarial assumed rate of return at the end of this fiscal year. So since -- we're on a good track to do it, but since this report, equities in July -- equities were up. Large-cap stocks measured by the S&P were up over 3.7 percent; small-cap stocks over 6 percent; international stocks over 5 percent; emerging markets stocks also 5 percent.

And so the bottom line is, risk assets rallied significantly in the month of July. So it just pushed the performance that much further towards that goal.

But, otherwise, what we saw at the end of June, which were in addition to dampened equity returns -- I apologize, I have a cold -- we also saw jobs come in above expectation in June, but then a little bit below expectations in July, and no significant changes in the fed's ability to raise rates. They're still trying to do it by the end of the year, but there's about a 50 percent chance that they will right now.

So I'll leave it at that for now, unless there's any questions.

Okay. The next agenda item under Number 8, I believe, is the Flash Report. The Flash Report is -- for Mr. Johnson's benefit -- the Flash Report and the Capital Market Report, we will send out generally between 10 and 15 days after a period end. It takes about -- that's month end, is that period.

It takes about seven business days for us to receive the custodian's statements. Once those are received, we have about a one-or-two-day turn-around time, and then we'll send out the Flash Report and the Capital Market Report.

The Flash Report has market values updated, performance updated for the total fund composites and all the investment managers, and also the benchmarks to the extent that they're available. The real estate benchmarks are usually the only ones that aren't available on a monthly basis, as you probably know.

Those are updated as well. So the idea is, you'll have a monthly update, a good monthly update on performance, for us to go through by conference call on those off-quarter-reporting months.

So since we're reporting on the June 30th investment performance, I want to go into a little bit more detail with that with the Investment Performance Review. That's the blue book that's in your pack, and I believe that is tab 9, if I'm not mistaken.

MS. McCAGUE: That's correct.

MR. HOLMES: So hopefully everybody has had a chance to review it. What I will do is I'll concentrate on the Executive Summary. We can dive into the report or issues about manager reports deeper, if that's okay.

Mr. Chairman, how long would you like for me to go?

CHAIRMAN TUTEN: That's fine, Dan.

MR. HOLMES: Okay. So turning your attention to page 4 in the Executive Summary. I'll dawn your attention to just what the -- as to paint a backdrop for performance, you'll see the market performance for the quarter.

And what you see is modestly positive equity returns for the equity indices listed at the bottom of the report, and then below that you'll see some negative returns in the international space due primarily to the Brexit event that happened at the end of June. And then below that you see real assets in fixed income have positive returns.

The one trend that we've been talking about for about a year and a half has been the performance of energy master limited partners -- or partnerships, I should say. They remain negative over the remaining -- over the trailing 12 months, but so far this calendar year they're up significantly.

And you can see that the Alerian MLP Index at the end of the quarter was up about -- almost 20 percent for the quarter. And so there's been a very strong recovery for that part of the portfolio, which you'll here shortly.

Any questions with regard to capital markets performance?

CHAIRMAN TUTEN: I've got a question for you real quick. I know we talked about it before, but it always seems like August, September, things get -- I mean, I know the Dow, the markets are at, like, all time highs as of yesterday.

What percentage of August are negative, or

September's, if you know? I mean, I can Google it, I guess, but I just kind of -- what I'm asking for is we're hanging on --

MR. HOLMES: Yeah.

CHAIRMAN TUTEN: -- and we're looking to make 7 percent for the year. But, you know, August comes around and September rolls around and it just seems like something gets -- you know, I was just curious.

MR. HOLMES: I don't know what the fear of August, Septembers or, for that matter, Octobers are in terms of being negative.

Generally the adage has been sell in May, go away, then buy again back in the fall. But that is not uniform. And in addition to that, our firm does not subscribe to market timing.

And so what we will do is look at what we think are attractive fundamentals and basically structure the portfolio to take advantage of attractive fundamentals and try to steer away from where we see risks.

So to try to predict returns for any particular given month, I just think it would be too difficult to do accurately.

CHAIRMAN TUTEN: Oh, yeah. I was just

curious, you know.

MR. HOLMES: Chris, you look like you have a question.

MR. BROWN: No, I don't.

MR. HOLMES: No? Okay.

MR. GREIVE: I'll just, if you don't mind, respond to the chairman too.

You know, I see why you're asking the question. Two out of the last -- or two or three out of the last six or seven years we've had a pretty good performance going into the summer, then we had a tough summer.

And because our books close September 30 and we run our actuarial evaluations, it's made our plan look bad, you know, two or three out of the last six or seven years when, you know, if you ended the period as of December 31, the plan would probably have looked a lot better, you know, during this time period. But like Dan said, it's very tough to time these things.

The most recent past City Council president came to me about nine months ago and just came to me with the suggestion that I actually feel may have some sense in that, you know, both of our pension funds, the City makes the benefit payments throughout the year, and then both pension funds have to reimburse the City at the end of the year. It's usually 100-, 120-, -30 , -40, -50 million, depending on the benefit payments for the year.

He said, why don't we -- we don't we look at doing that a couple times a year instead of all at the year end. And I thought that made some sense to do or at least to think about over time, not that we need to do it, you know, this year. But it does make some sense to maybe true up both the General Employees side and the PFPF side maybe a couple times a year instead of once a year at the end.

So that's just something that's been on my mind. Just wanted to bring it up with the Board. We can think about it over time.

But to Dan's point, that would be -- you know, you've got to be careful not to be seen as market timing. It's just taking advantage of, you know, short-term opportunities within your strategic framework. We do it, I guess, a more diplomatic way --

MR. BROWN: Many have tried and failed at predicting the markets.

MR. GREIVE: Yes, yes.

MS. McCAGUE: So this is something Tim will be working on. But you may remember that it was -- I think it was a 1992 JCCI study that recommended moving from the process that the City had used to make the payments and true up to an annual true up.

So we need to go back and look at their research as part of that study.

MR. GREIVE: Yes.

CHAIRMAN TUTEN: We'd have to do some sort of amount -- yeah, the original thinking was if you only had to pay it out once a way, you'd let the money work for that whole year.

MR. GREIVE: And in theory, you should be better off only doing it once a year at year end.

CHAIRMAN TUTEN: Yeah.

Now, if you want to pay, like, let's say, July 30 or something before August hits, fine with me, because I don't like -- I don't like August and September when it comes to the stock market at all.

MR. GREIVE: Or May 31 to comply with Dan's sell-in-May-and-go-away comment.

CHAIRMAN TUTEN: Sorry, Dan. Continue,

buddy.

MR. HOLMES: No -- no problem.

So the bottom line is, you know, we'll continue to look at it. I think the best thing to do, to defer to the question is, just basically look for rebalancing opportunities.

And so where necessary, we will take away from what we believe would be a rich asset class, if you will, one that's overvalued, and try to add to something that's undervalued.

Okay. With that in mind, what I'll do is I'll direct your attention to --

MR. DARAGJATI: Can I ask a quick question?

MR. HOLMES: Yes.

MR. DARAGJATI: The Alerian MLP has been doing great. I thought that it had a relationship with the cost of oil, which has been going down recently. Am I incorrect?

MR. HOLMES: Over the short term, it has. Over the long term, the underlying -- the correlation to the underlying commodity price has not been the case.

Over the last 18 months, it has increased dramatically in correlation. That's primarily due to the magnitude of the price of the drop of oil.

So translated, what I'm saying is, historically, MLPs were attractive and uncorrelated to the price of natural gas or oil. They were a high-yielding instrument, not typically used by institutional investors, more retail investors.

What we saw in basically the second half of 2014 all the way through '15 was a dramatic drop in the price of oil. And what you had was retail investors fleeing the space and forcing down the price of the MLPs, not truly understanding that the fundamentals for the MLPs still remained in place.

And so there was a big disconnect between what the actual economics for the MLPs were versus just price pressure due to sales pressure from retail investors.

Since then what we've seen is more money come back into the space. So some of the -- as the price of oil has come back, some of those retail investors have come back as well.

We've also seen institutional investors put more money in as they realize that it's basically -- at one point in time the yield had gotten up to about 9 percent, and you saw a lot of institutional money come back in because it's a great buying opportunity.

MR. DARAGJATI: Is there -- and I hate to keep asking questions.

MR. HOLMES: Oh, please.

MR. DARAGJATI: Is there money that would normally have gone into European bonds, fixed income, that's not going there now because of the negative interest rates going into these American MLPs?

MR. HOLMES: I think you're seeing money start to sit on the sidelines that may have gone into European investments, but it's holding off due to Brexit.

You're seeing that, especially on the real estate side, as they try to sort out what the effect of Brexit is, especially with regard to London office space. That's probably the sector that's been hit the worst.

And, you know, with the issues -- the underlying issues of Brexit having been worked out over the next couple of years, nobody really knows what the long-term effect is going to be.

Right now, you know, you saw property prices start to go down. Right now could be a great buying opportunity with some of those properties being in a distressed market. But time will tell.

MR. DARAGJATI: Thank you.

MR. HOLMES: Sure.

Okay. So I'll direct your attention in the performance report to page 16. I'm sorry. It was an additional one. Look at page 12.

Page 12 examines asset allocation relative to target for the major asset classes. What you'll see is that with regard to international equities, it's been a little bit over target, a little over 1 percent above target.

Fixed income remains about 2 percent above target. And real estate remains about 3 1/2 percent below target.

And energy MLPs has been right about on target due to the fact that you saw more performance appreciation, and we also basically reduced target over the course of last year.

MS. McCAGUE: Dan, are these relative to the targets, the new targets, that were approved in March and April?

MR. HOLMES: Yes. That's relative to the

updated targets that were adopted in March.

MS. McCAGUE: Thank you.

MR. HOLMES: I'll ask you to flip over to page 14.

So the way the performance works is that starting from the left-hand side, you see trailing period returns. As of the end of June, the three bar charts on the right-hand side are calendar year returns for calendar year 2015, '14 and '13.

And as we've been talking about over the past few months, if you took away the three months of December of 2015, January and February of this year, performance would look significantly different.

But reality is we can't take that away. And so what you see is that in 2013 and 2014, you see relatively and absolutely strong performance for those two years.

The 2015, on a calendar year basis, was down, and that was down primarily due to exposure in international equities and exposure to MLPs. Those are two areas that hurt performance.

So reversing that, so far over the last quarter, you see that the fund was up a little over 2 percent, 2 1/4 percent, call it, for the quarter. It ranked in the 21st percentile in the public peer universe.

So far this fiscal year -- the fiscal year is not shown on this particular page, but it showed up in the Executive Summary. And I know you're probably more keyed in on the fiscal year performance.

And so the fiscal year performance so far through June is up 6 -- 6.28 percent. That ranked in the 36th percentile.

MS. McCAGUE: 36 -- the top 36 percentile, right?

MR. HOLMES: The top, yeah. 1 is the best, 100 is the worst, and you're almost at the top third in the public pension peer universe over that time period. So we're on track to have a good fiscal year, is what I'm saying.

That is where it is at the end of June. At the end of July, we would expect -- by the way, I failed to mention, you moved the performance -- this meeting up a week for my benefit, and I wanted to say thank you for that accommodation. I'm taking my son to college next week and wasn't going to be able to make the meeting. So I wanted to say thank you.

Ordinarily I would have the Flash Report for you, but since we moved it up a week, I don't have it. As soon as it's ready, I will send it to you. But I fully expect to see that number get closer to 7 percent, assuming that the equity managers were basically in line with the equity markets over the month of July.

So, Rich, going back to your question, I understand the desire to try to lock in some of that gain, and what we'll try to do is look for rebalancing opportunities between now and the end of September. But the trajectory is positive so far this fiscal year.

MS. McCAGUE: And I can add that you may remember we ended the year last year at a billion 426, and as of yesterday afternoon, our fund balance was a billion 693. So I'm hoping we can get to a billion 7.

MR. SCHEU: Dan, in my nonfinancial mind, when I looked at this, if you look at the total fund policy, I take that to be the benchmarks?

MR. HOLMES: Yes, sir.

MR. SCHEU: So even though we might be doing better as to our benchmarks, we're not performing up to the benchmarks.

MR. HOLMES: That is correct.

MR. SCHEU: Are there consequences of that for us to be considered?

MR. HOLMES: Well, what it is, it's a number of the managers have underperformed. I was going to get into that here in a second.

And what we're doing is we've eliminated some of the underperforming managers. We're in the process of rounding -- we've -- Matt is here to report on the rebalancing and the transition that took place over the last month, and then we're also moving along the lines with the new managers fixed incomes.

And so those issues -- in short, those issues are being addressed.

MR. SCHEU: Thank you.

MS. McCAGUE: But to your point, now that we've gotten the portfolio rebalanced, as you all -- and reallocated, made the changes, then I know one thing Tim wants to do is have the Board drill down more on performance of these managers, not only relative to their peers, but relative to each other.

So I think you can expect to see a lot more detail around that.

MR. SCHEU: Thank you.

MR. HOLMES: Longer term. You can see that over the three-to-five-year period, you see slightly below median return for the three years. That's because of 2015 pulling it down.

And then over the longer time period, you can see better performance, top third over the last five years. And, again, above median for the seven- and the ten-year time period.

Interestingly enough, it's still very vivid in my mind, 2008, 2009. But you can see that that number is now captured in the ten-year trailing return, and the seven-year trailing return is basically the recovery since then.

And so the bottom line is that's the big reason why absolute returns are different between seven- and ten-year time period.

With regard to performance relative to the policy index, you can see over the longer time period it's been positive relative to the policy index, when over the intermediate period some of the managers have underperformed, and we're in the process of replacing them, as we mentioned.

Let me stop and see if there any questions there.

What I'll do now is I'll direct your attention to page 23.

If you look at page 23 and page 24, we're looking at the US Equity composite. So far this year the US Equity composite has remained below the benchmarch. It remains below the benchmark for a number of different reasons.

And you can see that -- over on page 24, you can see the rolling three-year performance chart for the domestic equity benchmarch.

You can see some of the changes that we had made a number of years ago were positive, but relatively recently, that has started to trail off.

The individual managers that have hurt individual performance. First of all, Brown Advisory, large-cap growth managers, the managers that we've been following for a while, they've been in the portfolio since 2000 -- November of 2013. So not quite three years.

2015 was a great year for them. They recovered as they said they would, primarily because of the end of QE3, but so far this year the reversal of the rush by investors back towards dividend-paying stocks and more defensive sectors has basically reversed what we saw in 2015.

So the processes are broken. It's out of sync with the market. But that being said, keeping Sawgrass in the portfolio has also been a benefit because they have a completely different growth style, and that's helped our performance.

The one disappointment, and it's a big disappointment, is Eagle Capital. Eagle had basically been a very steady, high-performing manager, significant asset return above the index.

And, unfortunately, they held Valiant in the portfolio earlier this year. It is now out of the portfolio, but the Valiant holding in a concentrating stock portfolio has cost them dearly in terms of absolute and relative performance.

And so looking at their portfolio on a calendar year-to-date, their benchmark is up over 6 percent. They're negative 1.5 percent due primarily to Valiant, and that has hurt their relative performance.

It's also -- or absolute and relative

performance, and it has also pulled out of performance through last year.

Now, that being said, they've been in the portfolio for over five years on both a net and a gross of fees basis. They remain above the benchmark since inception and over those time periods.

MS. McCAGUE: And we just moved more money to them.

MR. HOLMES: I'm sorry?

MS. McCAGUE: And we just moved more money to them.

MR. HOLMES: We did. We did. In terms of -- yeah, in terms of rebalancing. And I don't think the process is broken, that the value issue was a mistake on their part, but that's part of what comes with the -- with the more concentrated portfolio.

But we also -- to offset that, we also moved more money in the index fund as well. And we'll go into more detail about that.

MR. GREIVE: And, Dan, if I may, with Eagle, I just point out that you've held Eagle since April of 2011, and in that time period, they're up 11.87 percent per year versus 10.7 on the benchmark. So you're still ahead of the game with Eagle despite that.

So to Dan's point, the process may not be broken. It's just with a concentrated portfolio, you're going to have these periods where something fails and you get hit a little harder; but over time, if their process is still intact, you don't want to snap to a reaction and fire them when they're still 1 percent per year for five years ahead of the benchmark with them.

MR. SCHEU: I think that's what we're talking about on page 17. I circled the Manager Value Added, -0.94 percent, and then at the top of the page, -1.16.

And that just -- is this discussion about active versus passive managers, are we really -- I guess that's mostly attributable to active management, probably to Eagle, from what you just said.

MR. HOLMES: Eagle and Brown.

MR. SCHEU: Just something to hold intention about how -- who we're getting -- I mean, the types of managers we're getting, whether we're really getting any value added.

Would you comment on that?

MR. HOLMES: Sure. There's a -- the reason I'm hesitating is there's a lot of different ways to go. I don't want to make it too long of a conversation.

In the large-cap space, large-cap domestic equities space, probably the most sufficient space, it's harder -- probably a little bit more harder on the gross side for active managers to add value. But the bottom line is, it's hard and indexing is cheap on -- in the domestic equity large-cap space.

You have both in the portfolio. You have indexation, which we just increased, and we also have active, which we decreased, to add to the passive. And, again, a number of the changes we have made for the portfolio have taken place after this performance report.

The active and passive are both tools in the tool bag. They both are used. They both go in and out of favor. What we've seen recently is passive outperform active across a number of different asset classes, but that will reverse at some point in time.

I think what we have to remember is, is that passive is kind of a start or the default position, and then you have to be incentive away from passive by a structure or a manager that can add value to warrant adding them to the portfolio.

I believe that both Brown and Eagle will have the ability to do that. What we've seen is that over the past 18 months or so, it's been a difficult environment for them in order to do that.

MR. HOLMES: If you are going to use active management, I think you also have to keep in mind or keep a long-term investment period in mind as well, full market cycle.

And I would submit that we have not seen a full market cycle in order to see both the ability of these managers to outperform. I think they both can play a role in the portfolio.

MR. SCHEU: It's almost like timing in a different way.

MR. HOLMES: Yeah.

MR. SCHEU: I think it would be interesting, could you go back as of each fiscal year ends, say, the last five years, and see what the total manager valued added --

MR. HOLMES: No --

MR. SCHEU: You couldn't?

MR. HOLMES: -- I can't, and the reason is that information is not historically kept. It will change by quarter. I can go back and try to see what it is over the past couple of years, but I can't go back much further than that.

MR. SCHEU: Sure.

MR. HOLMES: If I could, I would be -- I'd love to be able to do it, but that information just isn't kept in the system.

MR. SCHEU: It would be interesting to see going back however far you could as another consideration for us to consider.

I mean, I hear it around town, why are you-all doing active management? And so it would just be helpful to understand that.

MR. HOLMES: Something else to think about, also think about it this way.

If you're going to buy the index -- so if you're going to buy the index now, the index has been up very strong and the domestic equity market is overvalued, by our estimation and by a lot of other folks' estimation. You know, the Dow hit an all-time high yesterday.

And looking forward, we're just not seeing growth in the marketplace to support that. Our capital market assumptions for domestic equities going forward over the next ten years is 5 percent.

If you index it, you're basically -- let's assume that 5 percent comes true. You're locking in 5 percent less whatever the fee is, 2 basis points, 3 basis points. Whatever that cost is, you're locking that is. You have to make 7 percent. We have to figure out how we're going to make that 7 percent up. And active management, used judiciously and used in space where it can add value, is one way to do that.

And so instead of taking -- my preference would be instead of taking the entire domestic equity portfolio and locking in that 5 percent, what I would like to do is, assuming we all have the mind for keeping a long-investment time horizon in mind, using that time diversification, if you will, to let the active managers add value for part of that portfolio.

Does that make sense?

MR. SCHEU: Oh, sure. It does.

MS. McCAGUE: And one of our large equity managers, GAMCO, is the one we just terminated because they had been dragging down that part of the portfolio.

MR. HOLMES: But also as an example of giving time, Sawgrass -- this time last year Sawgrass was underperforming.

MR. SCHEU: Right.

MR. HOLMES: And Brown had been -- and Brown had outperformed. And that role has reversed. Over time we've shown net of fees as we went through -- I believe it was, in May, if not May, it was June -- we show that the changes that we've made to the portfolio have been additive to performance.

And so I think the changes that we've made will work out over time, but it's not going to be -- we're not going to turn the lights off right away. Or turn the lights on.

MR. SCHEU: Can I ask you a stupid question, Beth?

Our assumed rate of return is 7 percent.

MS. McCAGUE: Net.

MR. SCHEU: At the end of the year, that's enough to pay out -- to rise plus pay our expenses and pay our benefits. That's why we do that; is that right?

MS. McCAGUE: Over the long term, yes.

MR. SCHEU: Right.

So I was just -- as Dan was talking, it seems to me, then, the 7 percent includes the fees. So net of fees, we don't really have to make the 7 percent net of fees because 7 percent is gross of fees; is that right?

MS. McCAGUE: Well --

MR. SCHEU: It's just helpful to me to think that way.

MS. McCAGUE: Right. The pension reform, the legislation says 7 percent. When the actuary runs our return, runs our statements, he's using a 7 percent net return.

MR. SCHEU: Right.

MS. McCAGUE: So 7 percent net is what we would need over the long term to pay our benefits.

MR. SCHEU: To do that net. Okay.

MR. BROWN: So we more then likely need somewhere around 9 percent.

MS. McCAGUE: Well, our basis points on average right now are 47 basis points.

MR. BROWN: 47. Okay.

MS. McCAGUE: But we would need -- to your point, we would need over 7.

MR. BROWN: Over 7, yeah.

MR. SCHEU: Thank you.

MR. TUTEN: Dan, on that Total Value Added that Bill was talking about on 17, that negative, is that including the transition management cost we had when --

MR. HOLMES: No, this is before that.

CHAIRMAN TUTEN: Okay.

MR. HOLMES: This is before that.

So basically what we're trying to do is break down attribution there, and for a particular quarter, you saw that both asset allocation -- in other words, where we were versus the target, and manager, performance versus their benchmarks, both detracted over the course of the quarter.

I can go back. I can pull it for the year. I can see if we could get it longer than that, and depending on the time period that you look at, over time what you would see is, is that it would be additive; otherwise, we wouldn't have been in the top third over the last five years and above the benchmark.

But I can go back and try to get it as long as I can to kind of show what that pattern has been.

In the International Equity portfolio, I need -- I know I need to wrap it up. In the International Equity portfolio, all managers outperformed their respective benchmarks over the course of the quarter.

So far this fiscal year, the managers for the most part have been positive. As you might expect, Silchester continues to have great performance. But the leader so far this fiscal year has been Acadian. They're up over 6 percent.

In terms of relative performance, Baillie Gifford, who was in visiting with FAIC a couple months ago, Baillie Gifford had a terrible 2015 because of a 20 percent exposure to emerging markets, and of that, about 10 percent of it was China. That hurt performance.

That has started to turn around, and they have outperformed the benchmark over the course of the quarter. And on the calendar year-to-date, they're basically about even with the benchmark and above median. So that is starting to reverse as well.

Again, over time, I think Baillie Gifford, the process is not broken. Unfortunately, they have more volatility than, say, Silchester does.

And so along those lines, I've confirmed that, unfortunately, we can't get more money into Silchester at this time. It's going to take a number of years. So we'll circle back around to that conversation.

On the fixed income side, basically we have exposure in core and bank notes. Over the course of the quarter, all three managers were about the same in terms of return, about 2 1/4 percent to 2 1/2 percent.

Eaton Vance slightly underperformed their bank note index over the course of the quarter.

So far this calendar year fixed income is basically -- the fixed income composite is basically in line with the index. The bank notes relative to core was a little bit of a drag. That's the 8 basis points below index exposure -- or performance.

And then in terms of real estate and energy, MLPs. So real estate.

Principal has had great performance. So far this fiscal year, the fixed income -- I'm sorry, the real estate portfolio is up over 7 1/2 percent. Principal has been the leader there. JP Morgan has been a little bit less than Principal, but other than the domestic equities, you can see that so far in the fiscal year, real estate has been one of the stronger performers. And the strongest performer for the fiscal year has been energy MLPs, up 10.7 percent, and they -- the two managers collectively, are above the benchmark by about 3.6 percent.

Also you'll note in the report that both managers have lagged their benchmarks just this fiscal year. Both have added substantial performance versus the benchmark since inception and over the longer time period.

What's happened this year is, is that the more speculative part of the -- and the lower quality MLPs, if you will, have been on kind of a tear. They don't traffic in those.

Tortoise, for instance, emphasizes the long-hall oil and gas pipelines. They tend to be more income oriented, a little bit less volatile. They have not appreciated as much as some of the more volatile areas. But long-term, I think you want a more conservative, high-quality portfolio, and that's what they've proven so far.

So that's the reason for their short underperformance versus the benchmark.

But, long term again, going back to Mr. Greive's point, if you looked at the MLPs since inception, which is March of 2011, both managers -- Harvest is up almost 10 percent and about 6.9 percent above their benchmark.

Tortoise is up 9 1/2 percent and about 6 1/2 percent above their benchmark. And so both have been -- strategies have added significant performance since inception. So in summary, a fairly steady trajectory over the past few years.

2016, big dip. Recovering so far this year, and we're on a track to achieve the actuarial assumed rate for 2016. But, again, we still have a few more months to go before the end of it.

CHAIRMAN TUTEN: Good deal. Any questions, guys?

All righty. Statement of Investment Policy.

MS. McCAGUE: Yes. I remind the Board that in March and April you attended workshops, you made decisions about termination of managers and adding new managers and approved changes in targets for asset allocation.

And you have been working for some time, and Dan Holmes has been working diligently to produce our new investment policy. The last time our investment policy changed was in 2012.

And so this is taking us to current situation. And as he put in our new allocations, he also did his best to streamline our policy. So he did reduce it some pages, but the fact is our policy is different from many pension funds because there are a lot of laws that determine how we operate and what -- what segments we can be in that many other pension plans don't have to worry about. So I don't think we can ever get this policy down to 10 or 15 pages.

But what we did do as -- so we will need your approval on the investment policy itself, and the changes there reflect the motions and approvals you've made at the March and April meetings.

Then, in addition, we've produced this Executive Summary that our outside attorney, Bob Klausner, produced for us, which I think is a very helpful document, and that is under tab 10.

So are there any questions on the investment policy?

We sent this out to you as soon as we could. I hope that no one took the time to read every word, but I can confirm to you that both Dan, obviously, and his team read every word. I read every word comparing it to the previous statement, as did our external attorney, and we made appropriate edits. And I'm confident that you've got a policy that reflects actions that the Board has taken.

CHAIRMAN TUTEN: I read the policy. It was -- I didn't see anything that jumped out, you know. Does anyone have any discussion? Do you want to give me a motion approving --

MS. McCAGUE: We need a motion on that. Yes.

MR. GREIVE: Mr. Chair, I just have a quick question for Beth, if I may.

I think in my book -- it may have just been a printer error. I think I only got the first seven pages in the book. I'll go back and check my emails --

MS. McCAGUE: Of the Executive --

MR. GREIVE: Of the investment policy. And it talks about under roles and responsibilities. So this isn't the whole thing.

MS. McCAGUE: Right. I'm sorry, Joey, if you did not get this.

MR. GREIVE: That's fine.

MS. McCAGUE: I've got the hard copy here if you would like to look at it.

MR. GREIVE: If you've emailed it, I'll read it this weekend.

MS. MANNING: Actually, I can give you a copy. I have a copy.

MR. GREIVE: Okay.

CHAIRMAN TUTEN: Okay. We need a motion to pass the new investment plan and the Executive Summary?

MS. McCAGUE: Exactly.

CHAIRMAN TUTEN: All right.

MR. BROWN: Motion.

CHAIRMAN TUTEN: We have a motion.

MR. PAYNE: I'll second.

CHAIRMAN TUTEN: We have a second.

Any discussion?

(No responses.)

CHAIRMAN TUTEN: All in favor?

(Responses of "aye.")

CHAIRMAN TUTEN: Opposed?

(No responses.)

CHAIRMAN TUTEN: Passes.

MS. McCAGUE: Thank you.

Now, both of these documents will be posted on our website, and also this is important. Tim and I will be working to get the new investment policy in its full form out to each of our investment managers.

And, finally, now, we'll be able to review the contracts with our four recapture companies that we work with because we have the investment policies that can accompany those contracts.

MR. BROWN: This summary, is there any way this can be posted to where the members can see the summary? This is a nice, condensed --

MS. McCAGUE: Yes. That's a great idea.

MR. BROWN: -- version of what we reviewed.

But a lot of people really do take an interest in restrictions and the way -- you know, the philosophy and such. I think it would be good for them to be able to have that.

I know we're working to get the website more user-friendly and have a lot of the frequently asked questions posted there so the members are able to see that.

MS. McCAGUE: That's a great idea. Thank

you. We will do that.

CHAIRMAN TUTEN: All righty. We'll at the Summit Equity Portfolio Transition Summary, tab 11.

Dan, you want to go over this real quick for us, buddy?

MR. HOLMES: What I thought I'd do is allow Matt to do it since he did the bulk of the work. I lied. He did all the work, and so my feeling is I'll let Matt see how the sausage is made. That's why I brought him to the meeting, but at the same time I'll let him explain what happened in the transition.

MR. JELINEK: Sure.

So just to refresh everybody's memories with regard to the transition, it was basically we hired Northern Trust to implement two of the Board's allocation decisions.

One Dan kind of touched on was the termination of GAMCO and DRZ. Basically we took GAMCO's assets, reallocated them to Eagle in the S&P 500 Index, and took DRZ's assets and reallocated them to a new manager, WEDGE.

The other one was increase the US large-cap allocation and decreased --

THE REPORTER: Can you slow down just a little?

MR. JELINEK: I apologize.

And decrease in the US large-cap allocation.

So basically the purpose of this summary is to see how Northern Trust -- how well they did in transition, how well they implemented it, and cost savings they were able to achieve for the plan.

So on page 1 here, I'll direct your attention, first of all, to the total explicit cost because that's the one you care about most. That's basically what Northern Trust is taking off the top, what they're taking for the transition.

So if you look at the pre-trade cost summary versus the post-trade cost summary, the costs are pretty similar. The reason being is they're charging 0.8 cents per share on all the trades. The only reason for any type of difference is change in the manager portfolio from the first free trade to the post-trade analysis.

0.8 cents per share is pretty good. If you'd given this to a manager to buy the assets themselves, you're looking at 3 to 5 cents a share, so the 0.8 is a good number.

Moving down to the implicit costs, Northern Trust was able to save somewhere around $50,000 from their pre-trade estimate on bid/ask spread, and that's due because they were able to utilize more internal cross-trades or there were narrower bid/ask spreads at the time of the transition.

So, in short, looking at the total transition, they were able to come in about $50,000 less than their initial estimate, for a total transition cost of 21 basis points just on the assets transition.

If you look at that from a total portfolio perspective, that's about 3 basis points.

Any questions on the cost page?

CHAIRMAN TUTEN: Is 80 cents commission --

MS. McCAGUE: 8 cents, 0.8.

CHAIRMAN TUTEN: Oh, okay.

MR. JELINEK: That's about as good as we see.

MR. GREIVE: Anything under 1 cent per share is very competitive. Most transition managers will bid 1, 1.25. Then we beat them down. Maybe we get them under 1, but 0.8 is pretty good. You've been with Northern Trust for a long time, so maybe they factored that into their analysis in giving you that fee.

Just a quick question, if I may, to Matt.

MR. JELINEK: Sure.

MR. GREIVE: Do you know offhand what percentage was executed in the open market versus internally crossed versus externally crossed?

MR. JELINEK: So there's 12 percent that was in kind, and that was just, you know, manager-to-manager in-kind transfers. Then about 52 percent or 55 percent, somewhere around there, was internal Northern crosses. So the rest of that --

MR. GREIVE: So over half was internally crossed, which means you paid no commission.

MR. JELINEK: Right.

MR. HOLMES: And no market impact either.

MR. GREIVE: And no market impact.

So they had a client who wanted to buy something that you had to get rid of, so they just crossed the two trades --

MR. HOLMES: Or they used it with their index funds.

MR. GREIVE: Or with their big index, because Northern Trust is one of the biggest index funds, from what I understood.

MR. HOLMES: Right.

MR. JELINEK: Right. And that's a primary reason for utilizing a transition manager, is because they're able to do that, whereas, if you just sold the securities and got cash and provided the manager with cash, they would have to buy all those new securities themselves instead of just taking them in kind. So you never have to take them to market.

MR. GREIVE: Impressed that you know those percentages offhand. That's good.

MR. JELINEK: So that's the cost part of it.

On the second page is the -- basically the allocation part of it, is how well they acted in getting the allocations that we wanted.

So if you look at it from both a US Equity and a total portfolio perspective, if you look at the post-transition allocation versus the target, everything very much in line with the target.

From the total portfolio perspective, the biggest delta between our targets and the final allocation is Sawgrass, and that's 20 basis points.

So in all, they were able to execute very well, getting us the allocations that the Board had approved and was looking for.

MS. McCAGUE: And, Matt, if I remember, this was 273 million that we were shifting from one set of managers to another, and Northern Trust was able to execute in two days.

MR. JELINEK: Correct. And, again, that's because we had a lot of in-kind transfers. So as far as open market trading, a lot of it wasn't able to be done.

Any questions on that?

CHAIRMAN TUTEN: No, just -- I was reading through the holdings for the -- during the whole report of the different managers.

One of them had one share of stock in a company. Does that -- is there a reason for that or are they just -- I mean, it was odd to me when you see the trades and the money, and then there was just, like, one share of stock in a company. I can't remember what it was.

MR. HOLMES: It could have been a corporate action. There may have been something -- a tag ad that was left over. I don't know what manager it was.

CHAIRMAN TUTEN: I just found that odd.

That's all.

MR. HOLMES: Yeah. You know, you would normally see round lots. So that might have been something that was left over or, again, the result of a corporate action.

CHAIRMAN TUTEN: All righty.

MS. McCAGUE: And, then, Matt, this was the transtion for the equity portfolio.

MR. JELINEK: Correct.

MS. McCAGUE: Now, this month you-all will be leading Northern Trust through the execution of the transition of the fixed income; is that correct?

MR. JELINEK: So it may not be Northern Trust that does it. So fixed income is a lot more difficult than on the equities side. It's harder to trade. It's harder to find the individual issues.

So one of the managers, Neuberger Berman, has agreed to take the securities in kind. So they will liquidate them themselves, and we kind of like that better because they're managing the assets. They kind of have skin in the game, so they'll kind of trade them a little bit more prudently; whereas, maybe if you gave them to a transition manager -- not that they'd have a fire sale --

MR. HOLMES: Yeah. They basically would be doing the same thing. So a transition manager on the fixed income side is going to be going out and getting three bids and selecting the best bids while the manager themselves can be doing the exact same thing.

And so what we want to do is work with them to help build the portfolio as cheaply as possible. They have more incentive to get the best price because they will have more money to invest going forward. And so instead of having to carve out something to pay for a transition manager on the fixed income side, it's best to have the new manager do the trading.

MS. McCAGUE: So Neuberger will do their part of the transition and Loomis will do theirs?

MR. HOLMES: Yeah. Primarily, yeah. We're still in the middle of going through it with them, but that's the way it looks like for right now.

CHAIRMAN TUTEN: Dan, with fixed income, it seems to me it would be way more affected by transaction cost, transition cost. I mean, this has ended up being 21 basis points for the equity side.

What's the average for the fixed income; do you know?

MR. HOLMES: This is no commissions. It's all based on bid/ask spread. And so -- sorry?

MR. JELINEK: No. That's right. It comes off the bid/ask spread, but in general it would be much higher than that, probably 50 or 60 basis points.

It's a lot different in fixed income. You can't really go to market with a lot of securities because they don't trade as often. So it's hard to tell, but it would be definitely two or three (inaudible)

CHAIRMAN TUTEN: Well, I was just wondering because, you know, the return on fixed income, the margins aren't nearly as big, you know, as equity.

So even though it's the same amount of costs, it's going to effect the total return for the year a lot more. I was just curious as to what it was. That's all.

MR. HOLMES: We'll try to figure out a way to estimate the costs --

CHAIRMAN TUTEN: I understand -- I understand what you're saying about the transition costs and the manager trying to sell it and do this and that. I understand all that. I'm just looking at the big picture as far as our fund how much it's going to cost compared to equity.

MR. HOLMES: In reality, in reality, it's not going to be as much as you think, because remember what we're doing.

A number -- or the majority of the new funds will be coming from the index fund. And so in the index fund, we'll be getting cash. They're not going to -- the index fund is not going to carve out a pro rata distribution of their index fund.

It trades on a daily basis, and it's NAB. And so what they will do is they'll simply give us whatever liquidity, whatever cash we need from that on a particular day, and the transaction costs for that liquidation are borne by the index fund.

And so we'll get that cash, and that cash will be used to fund part or both -- either one or both of both new managers.

The transaction in kind will come partly from Thompson Siegel where we'll gradually take some bonds away from them and then give them to the new managers to either hold or to trade as they see fit.

And that will take a little bit of time to do, but it also will -- it's not going to be as expensive as you might think it would be.

Does that make sense?

CHAIRMAN TUTEN: Sure.

MR. HOLMES: Okay.

MS. McCAGUE: That's just a report. We do not need a motion, but we thank Matt for your good work and for the net of the 20-plus basis points. And we thank Northern Trust for that.

MR. JELINEK: Certainly. I appreciate you guys having me.

MS. McCAGUE: Anything else, Dan?

MR. HOLMES: No, ma'am.

CHAIRMAN TUTEN: Under Administrative Reports, we have Consultant Report.

MS. McCAGUE: Consultant Report.

So under tab 12, just a couple of updates. First of all, I'm very pleased to let you know that the City Council did approve Rick Patsy.

They reappointed him for a full four-year term. And he's very sorry he couldn't be here today to help you celebrate that.

Our pilot records, electronic process program that Debbie and I are working on is in the final stage of pilot, and so far we're happy with the way that's going.

We do have our part-time Public Records Response Specialist, Jessica Fields, we hired. She'll start Monday for 20 hours a week.

Our two outstanding clarifications that we need around pension reform -- well, CSOs actually goes back beyond pension reform, but also city transfers.

With CSOs, Joey and I are working on a solution for that which we'll bring back to you, and city transfers. After the surtax passes, we'll be going back to City Council to ask for clarification on the city -- people coming from the city are transferring in. Are they transferring in based on Group 2 status or Group 1 status?

Transition of new executive director and plan administrator, Tim Johnson. Tim has either met or has appointments set with 8 of the 19 council members. All the other council members have been asked for appointments, but everyone is really busy with the budget. So we're so happy that we were able to meet at least with these eight before he gets too far into the job.

We've also had meetings with Jason Gabriel, Randy Wyse, Steve Zona. And Tim even went to our National Association of Retired Cops meeting last Monday night, which was a lot of fun.

MR. DARAGJATI: Did they feed you well?

DIRECTOR JOHNSON: They did feed me well. We don't get catfish up north.

MS. McCAGUE: They were very kind too, as they always are.

Mike Weinstein and Sam Mousa will be meeting with Tim, although Tim has meet Sam. They'll be meeting with him after the budget process.

Our budget will be presented, by the way, on August 26. We put out an offer to answer any questions that any of the finance committee members have on the budget. We've heard nothing from them.

I'll remind the Board we have two important days that I hope you have on your calendar. The first is September 1. That is the workshop recommended by Bill Scheu that you-all agreed to. We have Jason Gabriel scheduled to meet with us the morning of September 1 here at the fund.

And they will be working through what exactly does the general counsel expect to be involved in versus what are the day-to-day operations that the staff and the administrator will be working on with the outside pension attorney.

September 28 is fiduciary training. Our external attorney, Bob Klausner, will be in to give that training. He will also spend some time in the afternoon with our advisory committee giving them more information on how to look at issues of disability and issues of suspension.

That will be a good meeting.

City Council. We have not heard from City Council yet on the replacement for our trustee, Mr. Scheu. Mr. Scheu has graciously agreed to serve so we have a full meeting until a replacement is named, but I would imagine in early September, we'll get word on that.

We are issuing a press release through the City Office on Tim Johnson's arrival, but also it turns out that there are lots of ways we can make use of that City Office press group, including -- of course, we have all of our financial information on our website, but no one knows how to maneuver around the website. And we're constrained by the City webmaster.

There are only certain things we can do on the website and only certain things we can present information, but we can do press releases.

So one of the press releases we'll be doing, with Dan's help, is Monday we'll issue a press release on the financial investment returns through September 30. And I think we'll want to do that on a regular basis. So it's all about marketing.

So that is my report. And next month Tim will be working. He already has ideas on improving the book, getting information to you earlier. I think you'll be extremely pleased about the efficiency with which he'll operate with the Board.

CHAIRMAN TUTEN: Before you go, Beth, I want to say thank you for the job you've done.

MS. McCAGUE: Thank you.

CHAIRMAN TUTEN: You've been very vocal,

asking me a lot of questions, thankfully. But you've brought, I think, exactly what we needed at the time.

I know I told you when you first stood up here that it may get a little dicey. Thankfully it didn't.

MS. McCAGUE: I remember the handcuffs comment.

(Laughter)

CHAIRMAN TUTEN: I think it's probably a lot more to do with you than me and the Board heading it off at the pass, but you've done an excellent job. You're still going to be around a little bit as Tim takes over, of course. But I want to say I do appreciate what you've done a lot.

MS. McCAGUE: Thank you.

CHAIRMAN TUTEN: I think you've saved the Board a lot of trouble with various issues, and especially working with Dan and them, getting a lot -- we've got a lot of stuff done in the last year.

MS. McCAGUE: We have.

CHAIRMAN TUTEN: And I just want to say thanks. You did a great job.

MS. McCAGUE: It's been my pleasure and my honor. Thank you.

(Applause)

MS. McCAGUE: So I would like it noted, it's 10:15.

CHAIRMAN TUTEN: It's 10:15. It's a world record. Anything else? Going once, twice.

Meeting adjourned.

(The Board meeting concluded at 10:15 a.m.)

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CERTIFICATE OF REPORTER

I, Denice C. Taylor, Florida Professional Reporter, Notary Public, State of Florida at Large, the undersigned authority, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings, pages 3 through 73, and that the transcript is a true and correct computer-aided transcription of my stenographic notes taken at the time and place indicated herein.

DATED this 9th day of September, 2016.

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

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