

JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: December 18, 2015

TIME: 9:04 to 10:56 a.m.

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

BOARD MEMBERS PRESENT:

Larry Schmitt, Board Chair
Richard Tuten, III, Secretary
Nathaniel Glover, Jr., Trustee
Richard Patsy, Trustee
William E. Scheu, Trustee (via telephone)

ALSO PRESENT:

Beth McCague, Interim Executive Director
Debbie Manning, Executive Assistant
Robert Klausner, Board Counsel
Joey Greive, Fund Treasurer
Dan Holmes, Summit Strategies
Devin Carter, Fund Controller

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

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P R O C E E D I N G S

December 18, 2015

9:04 a.m.

- - -

CHAIRMAN SCHMITT: It's 9:04. We call the meeting to order. We have Trustee Scheu via telephone.

We will start out with a moment of silence to remember deceased member William Dewitt, III, retired police sergeant.

(Pause)

CHAIRMAN SCHMITT: All rise.

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

I apologize for my voice. I'll speak up as much as I can.

We'll start with the public speaking period. Debbie, do we have some public speakers?

MS. MANNING: Mr. Gassett and Curtis Lee.

CHAIRMAN SCHMITT: Mr. Gassett.

MR. GASSETT: He was first.

CHAIRMAN SCHMITT: Sure. Mr. Lee.

MR. LEE: First thing, I want to speak on the frequent flyer points issue.

1 Before this Board -- my name is Curtis Lee.
2 My address is on file.

3 Before this Board digs itself into a deeper
4 hole regarding the proposed --

5 THE REPORTER: Could you speak up, please.

6 MR. LEE: My name is Curtis Lee. My address
7 is on file. I'm speaking on the frequent flyer
8 points issue.

9 Before this Boards digs itself into a deeper
10 hole regarding the proposal to try to
11 retroactively bless Mr. Keane's prior criminal
12 conduct related to frequent flyer points, et
13 cetera, consider these points.

14 Number 1: The related Police and Fire
15 Pension Fund documents were falsified in an
16 effort to confer pecuniary advantage. This can
17 constitute a crime.

18 Number 2: I have complained to the state
19 attorney's office and the inspector general and
20 the complaints are, I believe, still pending. If
21 you approve proposed changes to the proceedings
22 at any level, it would appear that you are aiding
23 and abetting. You will appear culpable. Why
24 would you want to do this?

25 Number 3: Crimes are committed against

1 people. That's how the law works. The Police
2 and Fire Pension Fund cannot today make
3 uncriminal that which was formally criminal.

4 To analogize, if John Doe beats me up and I
5 forgive John Doe, the people can still prosecute
6 John Doe to obtain a conviction.

7 Also, remember, the general public, we would
8 collectively pay about 90 percent of the
9 contributions to the Police and Fire Pension
10 Fund. We have a strong interest that crimes
11 against the people, against us, against 99
12 percent of us who do not benefit from the fund,
13 shall be prosecuted. So please switch sides and
14 join me.

15 Number 4: The proposed changes to the
16 procedures manual have a false premise. If the
17 law says that frequent flyer points are not
18 taxable, that does not mean they lack value.

19 The law says most gifts are not taxable, yet
20 if any of you would like to give me \$5,000,
21 neither of us pays taxes on that gift. But, of
22 course, that gift would have cost to you and
23 value to me.

24 Number 5: The fund still violates my public
25 records law rights. After over one year I still

1 have been denied records regarding what Mr. Keane
2 purchased with those points, perhaps even cashed
3 them out. I don't know. That's because you're
4 not giving me the documents.

5 Number 6: Someone wrote to the SAO, state
6 attorney's office, about these matters, but the
7 document was not posted last night. I would like
8 this document. I have been copying the Police
9 and Fire Pension Fund on my documents. So it
10 would be fair and appropriate to copy me.

11 Number 7: It is in the financial interest
12 of the Police and Fire Pension Fund that
13 Mr. Keane be indicted and convicted. The fund
14 could save over \$2 million that way. As
15 fiduciaries, you must consider this. Let's
16 recover \$2 million.

17 Thank you. I don't -- unless you give me
18 another three minutes to talk on my other topic,
19 I'm out of time.

20 CHAIRMAN SCHMITT: Any questions?

21 MR. GASSETT: My name is Bill Gasset and my
22 address is a matter of record and I speak as a
23 taxpayer.

24 The first page, of course, I've been before
25 you on, bonds are death. Now they're dead. I

1 will say if you can find a bond that will pay 10
2 percent, certainly go into it. That's the only
3 one that will give you the 7 1/2 percent
4 compounded that you need to succeed, which kind
5 of forces into a high-yield bond market.

6 I know Dan will talk about earlier today --
7 or later today, but that gets kind of tough
8 because that's a junk bond issue, but,
9 nonetheless.

10 Now, what is getting critical here is that I
11 would like to recommend a two-tier analysis
12 program that perhaps -- sorry guys -- could file
13 for us because forewarned is forearmed. And
14 here's what we're beginning to face.

15 We need separate reports: One that shows
16 what the active employees retirement program is
17 doing and one that shows what the retiree
18 requirements are. And I use the term R square
19 for retirement performance.

20 But the reason why these guys must be
21 separated in your analysis is because each year
22 they get paid 7 1/2 percent -- we have to make 7
23 1/2 percent to pay them what they're allowed to
24 take out, plus the 5 percent inflation increase.

25 So let's start year one. The market was

1 flat, which it was in many of the years, 2010.
2 Suddenly the account is down to 93 1/2 percent.
3 Cash has to come out each year, and when you take
4 money out in a down market, as those of you in
5 the investment business know, you really are
6 deepening the quicksand.

7 So what happens next year, just to get back
8 to even, we've got to go back up 23 percent.

9 Devin, you can check me on the mathematics,
10 but the logic is quite correct.

11 So that kind of analysis needs to be done
12 because most of the folks who are -- of the 1.57
13 billion you've got right now, is to take care of
14 the retirees.

15 Same thing applies going the other way. You
16 see with the active employees, you don't have to
17 wait about a year-to-year CD-type thing because
18 you have 20 and 25 to 30 years to make the 7 1/2
19 compounded rate, and that's okay. That report
20 should be done also.

21 But, again, this has been showing before
22 year one, the funds goes down to 85 percent
23 because the market went down 15 percent. In the
24 next year, in the shortened time frame, you've
25 got to come back up to 33 percent.

1 So, again, I would stress to please develop
2 a cash flow analysis right here so you know
3 what's going on.

4 The other problem we've got, and this is
5 from an initial study, indicates that the general
6 market required future growth may not be -- over
7 the next several years may not be sufficient to
8 fund the next several years of the amount needed
9 to fund the coming retirement class of the 20, 25
10 and 30 year group.

11 In some cases, using the Dow Jones as an
12 indicator -- I know, you know, you have to have
13 something that says what's going on. It may take
14 a 14 percent compounded growth rate for the next
15 four years just to get it up from the classics to
16 fund those retired in the 20th year coming up.

17 So that kind of, how are we really facing
18 the future, needs to be analyzed, I think, as
19 part of the ongoing requirements of reports
20 from -- to the Board.

21 So I would encourage, Mr. Chairman, if you
22 would, to consider an extra reporting system that
23 let's you know just how -- because you've got --
24 you don't need another five years from now what's
25 happened in the last two or three years. And by

1 having this kind of knowledge, you can prepare
2 for it.

3 Merry Christmas.

4 CHAIRMAN SCHMITT: Do we have any other
5 public speakers?

6 MS. MANNING: No, sir.

7 CHAIRMAN SCHMITT: Public speaking period of
8 closed.

9 First we have the Consent Agenda items.

10 MR. KLAUSNER: Mr. Chairman, the Consent
11 Agenda items can all be taken as a single item.

12 MR. GLOVER: I make a motion.

13 CHAIRMAN SCHMITT: All right. I have a
14 motion. Second?

15 MR. TUTEN: Second.

16 CHAIRMAN SCHMITT: All in favor.

17 (Responses of "aye.")

18 CHAIRMAN SCHMITT: Opposed?

19 (No responses.)

20 CHAIRMAN SCHMITT: We're going to move to
21 the Financial Investment Reports. Dan Holmes.

22 MR. HOLMES: Good morning. I appreciate you
23 letting me go first. It will allow me to make
24 our office holiday party back home tonight.

25 I have a number of things to go through.

1 First I will take up the monthly economic and
2 capital market review, very quickly, just to give
3 you have a highlight of what happened during the
4 course of November. And as we live in a 24-hour
5 news cycle these days, a lot of this information
6 is now stale, as the fed has moved to raise
7 rates.

8 The bottom line is with regard to the
9 economy, during the month of November, we saw the
10 US labor market improve with over 200,000 new
11 jobs being added. Unemployment rates stay at 5
12 percent.

13 In addition to that, real GDP was annualized
14 at a 2.1 percent. That is restated. That's a
15 second estimate. So that's on top of a real GDP
16 estimate from the second quarter at 3.9 percent.
17 So, again, the economy is growing, adding new
18 jobs.

19 And, finally, what prompted the fed to take
20 its action earlier this week was the fact that
21 we're seeing wage inflation. And that was the
22 final -- the final issue, what the fed had been
23 looking for. So they raised rates.

24 Market not being impacted in terms of
25 returns in the market, I think a more important

1 thing going forward is monitoring the path of
2 interest rates going forward as well as the
3 magnitude of change.

4 For the month of November, we basically saw
5 domestic equities basically flat in large cap,
6 about 3 percent positive in small cap, and
7 slightly negative in the international due to the
8 rise in the dollar.

9 In fixed income, we saw yields increase --
10 strike that. Yeah, increase a bit. And so as a
11 result, bonds were flat to negative with
12 structured debt being the better performing
13 sector.

14 So that gives you a quick background in
15 terms of what happened in terms of the market.

16 I'll ask you now to flip to the Flash
17 Report. It's a report on performance for the
18 month and fiscal year-to-date.

19 Page 1 shows market value at the end of
20 November. November's market value ended at
21 basically 1.5 billion. And to be precise --

22 MS. McCAGUE: Dan, excuse me.

23 MR. HOLMES: Yes, ma'am.

24 MS. McCAGUE: Let's let everybody get to the
25 Flash Report.

1 MR. HOLMES: Okay. Thank you.

2 MS. McCAGUE: We're welcoming a new member
3 today, and so we just need a little bit of time
4 to get oriented here.

5 MS. MANNING: Actually, that is the monthly
6 report. That was not listed on here. So that's
7 why it was handed out. The Flash Report is
8 listed in the agenda, but not the monthly. So
9 that is a new report to be added.

10 MR. HOLMES: The market value ended
11 precisely at \$1.499 billion. We'll note on page
12 1 of the Flash Report that the allocation to US
13 Equities is 6 percent above its target weight.
14 That's outside the parameters of a permitted
15 range around that weight.

16 As a result, we're recommending reallocating
17 1 percent from US Equity to fixed income, which
18 is under its target by about 1 1/2 percent,
19 approximately.

20 So that would mean taking \$15 million from
21 the S&P Index Fund and giving it to the active
22 manager, Thompson Siegel, in core fixed income.

23 MR. TUTEN: Dan, is it -- I mean, something
24 we're talking about, that small amount of money,
25 I mean, is it worth the transaction cost and

1 everything to do that right now, or is it better
2 to just let it ride for -- because, you know,
3 with the fed and everything, maybe just give it a
4 little time?

5 MR. HOLMES: Well, Rich, I think it's more
6 of an issue of staying within the -- following
7 the guidelines, following the investment policy.
8 We're at that point where we have to rebalance to
9 stay in compliance with the investment policy.

10 MR. TUTEN: I gotcha.

11 MS. McCAGUE: And that's taking into
12 consideration the allocation and the investments
13 that were made in the last ten days with the city
14 making its annual contribution.

15 MR. HOLMES: That was done -- the difference
16 between stocks and bonds was done more or less on
17 a pro rata basis. So it's going to be about the
18 same. We will need a rebalance. Yes.

19 MS. McCAGUE: Okay. So do we need action on
20 that? I'll ask our attorney.

21 MR. KLAUSNER: Yes. If you're going to
22 reallocate a -- I've made a note that you would
23 need to approve the recommendation of the
24 consultant and direct you to proceed accordingly.

25 MS. McCAGUE: Would you restate the

1 recommendation, please?

2 MR. HOLMES: Yes, ma'am.

3 That would be to reduce the S&P 500 Index
4 Fund by \$5 million -- or some \$15 million, and to
5 contribute that to Thompson Siegel, which is a
6 core bond manager.

7 MR. KLAUSNER: Will that still keep you
8 within the guideline for the core bonds?

9 MR. HOLMES: Yes.

10 MR. GLOVER: Move.

11 MR. PATSY: I have a question, Dan.

12 How much do we normally keep in cash? Is
13 this representative of the amount we normally
14 keep?

15 MR. HOLMES: Cash is usually kept fairly
16 low.

17 MR. PATSY: Okay.

18 MR. SCHEU: Mr. Chairman, could I ask a
19 question?

20 CHAIRMAN SCHMITT: Yes. Go ahead,
21 Mr. Scheu.

22 MR. SCHEU: Dan, if we knew that the fixed
23 income with the rates going up, will that result
24 in a decline in asset value over the next six
25 months to a year?

1 MR. HOLMES: I'm sorry. I didn't hear the
2 full question.

3 MR. SCHEU: With asset allocation, if we
4 move out of the equities and into fixed income,
5 with interest rates beginning to move up, won't
6 that result in a decline in the value -- of the
7 asset value of the fixed income side of the
8 portfolio?

9 MR. HOLMES: Not -- it may, but not
10 necessarily. It depends on what's priced into
11 the market and how much rates move.

12 But the issue is more in terms of, we have
13 to rebalance to stay within investment policy
14 guidelines. And so whether you go to fixed
15 income or go to cash over a 12-month period, my
16 expectation is that the core bond manager is
17 going to outperform the cash account.

18 CHAIRMAN SCHMITT: Any follow-up, Mr. Scheu?

19 I have one question here. You know, we're
20 also underweight in real estate --

21 MR. KLAUSNER: Mr. Scheu, can you still hear
22 us?

23 CHAIRMAN SCHMITT: Trustee Scheu, can you
24 still hear us?

25 MR. SCHEU: Yes. Can you hear me?

1 MS. MANNING: I took the phone off thinking
2 it might help with the sound, and we lost you for
3 a minute.

4 MR. SCHEU: Okay. Yeah, I heard you. Thank
5 you.

6 CHAIRMAN SCHMITT: Did you have any
7 follow-up, Mr. Scheu?

8 MR. SCHEU: No. That answered my question.
9 Thank you.

10 MR. PATSY: How much do we normally pay out
11 in benefits on a monthly basis? Where does that
12 cash come from to do that?

13 MS. McCAGUE: Devin.

14 CHAIRMAN SCHMITT: Devin or Joey.

15 MR. GREIVE: Sure. Through the Chair to
16 Trustee Patsy.

17 The city makes the benefit payments for the
18 fund throughout the year and keeps track of it
19 from an accounting perspective, and at the end of
20 the year, just like we do with general
21 employees --

22 MR. PATSY: Okay. I got you. Okay.

23 MR. GREIVE: -- there's a netting at the end
24 of the year.

25 MR. PATSY: Okay. Thank you.

1 MR. KLAUSNER: And as you know, Mr. Patsy,
2 our payroll is biweekly. I think we're on the
3 off week from the city employee payroll, right?

4 MR. GREIVE: It's biweekly. The same thing.

5 CHAIRMAN SCHMITT: Question, Dan.

6 We're also underweighted in real estate, but
7 you're recommending going into bonds instead of
8 real estate?

9 MR. HOLMES: Yes, because the two real
10 estate managers are closed to new contributions
11 at this time.

12 CHAIRMAN SCHMITT: Okay.

13 MR. HOLMES: If we could put it into real
14 estate, I would put it into real estate.

15 MR. GREIVE: Mr. Chair, if I may.

16 I made this comment a couple times over the
17 last few months. But, you know, one thing we've
18 done -- and, Rick, you know that from your
19 service over at the GEPP -- but over the last
20 year or two, we were short on real estate as
21 well, so we added some noncore real estate
22 managers.

23 Right now you have two great core real
24 estate managers, but to round out that real
25 estate bucket and give you another tool to

1 utilize to help when you get a little light on
2 real estate, you probably need to do a search in
3 the next six to nine months.

4 Just make it a Board goal over the next six
5 to nine months to do a search to add a new tool
6 in the noncore real estate space so that when you
7 do get underweight, and you've got overweights
8 elsewhere, instead of -- I don't want to say
9 being forced into; but, you know, you lack a tool
10 that you would otherwise like to have in your
11 portfolio. So you task your consultant with
12 various ideas if you wanted to.

13 MR. HOLMES: That was one of the issues we
14 talked about yesterday.

15 CHAIRMAN SCHMITT: We have a motion. Do we
16 have a second?

17 MR. PATSY: The motion is to do a real
18 estate search?

19 CHAIRMAN SCHMITT: No. The motion was to
20 move \$15 million from the equity to --

21 MR. HOLMES: From the S&P 500 index fund.

22 MR. KLAUSNER: To the Thompson Siegel's core
23 fund.

24 MR. GLOVER: The motion was to move the
25 recommendation (inaudible).

1 CHAIRMAN SCHMITT: Do we have a second?

2 MR. PATSY: I'll second it.

3 CHAIRMAN SCHMITT: Any further discussion?

4 (No response.)

5 CHAIRMAN SCHMITT: All in favor, aye.

6 (Responses of "aye.")

7 CHAIRMAN SCHMITT: Opposed?

8 (No responses.)

9 CHAIRMAN SCHMITT: That passes.

10 MR. HOLMES: Thank you.

11 Touching base on page 2 with regard to
12 returns for the month, as I mentioned before,
13 equities were basically flat to negative except
14 for small cap during the month.

15 So the total fund performance for the month
16 of November was down 5 basis points. That's
17 almost 90 basis points above the policy index.

18 For the fiscal year-to-date, the plan is up
19 5.2 percent, specifically 5.23 percent. On a
20 net-of-fees basis, it's up 5.14 percent. And in
21 both cases you're over 1 percent above the policy
22 index.

23 Domestic equities finished strongly in the
24 month of November, primarily due to the returns
25 of the small cap managers.

1 The domestic equity composite was 1 percent
2 above its benchmark, up 1 1/2 percent, and that
3 was mainly from contributions from DePrince Race
4 & Zollo up over 4 percent, and Pinnacle up about
5 3.3 percent.

6 In addition to that, Brown had another good
7 month, so they continue their relative
8 performance comeback.

9 Fiscal year-to-date, the domestic equity
10 composite is up over 9 percent and, again, above
11 its benchmark.

12 International equities above their
13 benchmark for the month, but negative in
14 absolute return space as the dollar increased,
15 and that took away from international returns
16 about 40 basis points above its index.

17 On the fiscal year-to-date, it's up almost 6
18 percent and 70 basis points above. And that's
19 primarily on better performance both from
20 Silchester and Baillie Gifford.

21 The Fixed Income composite was down 33 basis
22 points for the month, about 7 basis points below
23 its index. Fiscal year-to-date, it's about even
24 with its benchmark, the Barclays Aggregate
25 Index. That's not surprising, given the majority

1 of the monies in the index fund.

2 Real estate. The real estate portfolio was
3 up over 1 percent for the month and also about --
4 well, actually there's no relative return shown
5 because the index was not priced monthly. It's
6 only priced -- the index there is only priced
7 quarterly. So we have placeholders with zero
8 there.

9 And in both cases both managers had positive
10 returns, both up about 1 1/2 and 1 percent,
11 respectively.

12 And then finally the MLP sector had a --
13 continued to have a negative month after a
14 positive October. It was off 6 percent, 6.6
15 percent. Again, active management continues to
16 add value there with returns of 1.8 percent and 3
17 percent above the index over the month and the
18 fiscal year-to-date basis.

19 I've got another presentation to give the
20 Board, an update on MLPs, that I'll talk to you
21 in more detail there.

22 But that's it for the Flash Report unless
23 there's any questions.

24 MR. PATSY: Dan, back up for a second.

25 MR. HOLMES: Sure.

1 MR. PATSY: I know we already approved this,
2 moving equities and fixed income. But MLPs are
3 down almost effectively the same amount versus
4 (inaudible) in the fixed income range.

5 MR. HOLMES: Why not rebalance the MLPs?

6 MR. PATSY: Yeah. Why not the MLPs?

7 MR. HOLMES: Because it's up about 6
8 percent. Right now we think that the current
9 policy target is a bit high. In February we're
10 going to bring back an asset allocation review.
11 At that time I would expect that we would
12 probably lower the target to MLPs going forward.

13 And so right now we want to see some more
14 traction before we add anything to MLPs
15 regardless of what the policy level is.

16 MR. PATSY: Okay. That makes sense. And
17 this Eaton Vance Senior Loan Trust, that's in the
18 same category?

19 MR. HOLMES: No. That's in a different
20 category.

21 MR. PATSY: No, I know, but as far as your
22 opinion.

23 MR. HOLMES: Yeah. I think that there are
24 better opportunities there going forward.

25 MR. PATSY: Okay. Does Thompson use -- is

1 that core --

2 MR. HOLMES: That's core fixed income.

3 MR. PATSY: There's no high-yield; there's
4 no emerging market there?

5 MR. HOLMES: They have the ability to hold a
6 small portion of the portfolio in high-yield,
7 basically fallen angels, where there's a split
8 rate or downgrade.

9 The idea is when an entire sector gets paid
10 in time with a negative broad brush and the
11 sector trades on technicals, they're able to
12 invest a small amount of the portfolio and some
13 of those downgraded bonds in anticipation of them
14 being subsequently upgraded. Buy them cheap and
15 then getting the price up on appreciation.

16 MR. PATSY: Okay.

17 CHAIRMAN SCHMITT: Any other follow-up
18 comments?

19 (No responses.)

20 CHAIRMAN SCHMITT: I'll move to the Asset
21 Class Review on MLPs.

22 MR. HOLMES: Okay. Mr. Chairman, with your
23 permission, there's a couple things I want to
24 make sure that you approve that need to get done.

25 CHAIRMAN SCHMITT: Okay.

1 MR. HOLMES: I can go through those first.

2 CHAIRMAN SCHMITT: Sure.

3 MR. HOLMES: In case we're in danger of
4 losing any kind of quorum.

5 One issue on the agenda is there was a
6 letter from Silchester regarding a change in the
7 firm's cost-trading policies.

8 The background is, the past, the firm had
9 received a prohibitive transaction exemption from
10 the Department of Labor, allowing cross-trading
11 between their commingled vehicles.

12 Because of changes in regulations in the
13 United Kingdom, they need to change their
14 cross-trading rules internally. The only thing
15 they're asking for is a verification from the
16 system that there's over a hundred million
17 dollars in system assets.

18 CHAIRMAN SCHMITT: And what document number
19 is that?

20 MR. KLAUSNER: 12-10.

21 MR. HOLMES: Thank you.

22 MR. PATSY: How are we invested now, a
23 commingled-type vehicle?

24 MR. HOLMES: Commingled fund, yes.

25 MR. PATSY: And how does --

1 MR. HOLMES: You're not -- the bottom line
2 is the system is not affected. They're just
3 simply asking for verification of asset size in
4 excess of \$100 million.

5 But you need to give that to them so you can
6 remain invested in the fund that you are.

7 MR. GREIVE: And I believe we did this at
8 the General Employee Pension Fund last month.
9 It's been approved.

10 MR. KLAUSNER: For certain types of
11 investments, there are SEC regulations and
12 internal compliance regulations that an investor
13 has to be of a certain size, and you're simply
14 confirming based on their benchmark that you are
15 of size.

16 MR. HOLMES: Exactly.

17 MR. KLAUSNER: Do you find anything in the
18 change of the cross-trading that's problematic?

19 MR. HOLMES: No, no. And this is something
20 that we're doing across all our Silchester
21 clients.

22 CHAIRMAN SCHMITT: I need a motion.

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

24 CHAIRMAN SCHMITT: Second?

25 MR. GLOVER: Second.

1 CHAIRMAN SCHMITT: Any further discussion?

2 (No responses.)

3 CHAIRMAN SCHMITT: All in favor?

4 (Responses of "aye.")

5 CHAIRMAN SCHMITT: Opposed?

6 (No responses.)

7 CHAIRMAN SCHMITT: Passes.

8 MR. HOLMES: Thank you. Now I'll go back to
9 the Asset Class Review for Master Limited
10 Partnerships.

11 Let me know when everybody has found the
12 pass-out document.

13 Okay. So this is the asset class that we've
14 been talking about and monitoring for the
15 majority of this calendar year.

16 The reader's digest version or the executive
17 summary is that basically there's a big
18 disconnect between what the fundamental value and
19 outlook for Master Limited Partnerships look like
20 versus the fact -- where they're trading now.

21 The point of this is basically provide
22 information in support of our recommendation,
23 continuing to hold MLPs, in anticipation that
24 they will do better when the market comes around.

25 So on page 1, basically we're in about the

1 12th month of an energy -- or 13th month of a
2 broad sell-off in the energy sectors. Basically
3 anything related to energy has sold off because
4 of the decline in the commodity price.

5 Traditionally MLPs don't have a direct
6 correlation with changes in the commodity prices,
7 but in this particular case where you have the
8 commodity price sell-off by over 60 percent, the
9 entire sector has been affected.

10 So, for instance, energy holdings in equity
11 manager's portfolios have been negative. The
12 high-yield bond market has been negative because
13 a lot of the high-yield bonds issuers are energy
14 companies.

15 MLPs, really, anything either public or
16 private having to do with energy has basically
17 been broadly marked down.

18 We do believe that there is a disconnect
19 from current fundamentals and we'll show you
20 that. Current valuation levels are very
21 attractive. The yield has continued to be very
22 attractive, in the 7, 8, 9 percent range,
23 depending on which month it is.

24 We still believe in the asset class,
25 obviously. There's a couple other important

1 things that you need to know.

2 First of all, the ownership of MLPs is
3 highly concentrated with retail owners. The
4 retail market individuals, if you will, tend to
5 move more on emotion. And so the retail market
6 pulling money out is exacerbating the decline in
7 price and the overall volatility to the
8 portfolio -- or, I'm sorry, to the market.

9 In addition to that, right now you have a
10 lot of tax loss selling going on where
11 individuals are selling off portfolios or
12 securities for tax purposes that have negative
13 returns, and then usually what you see is a
14 January effect where a lot of those securities
15 are subsequently repurchased in January. And so
16 that continues to be a wind in the face of MLPs.

17 And then, finally, not all MLPs are created
18 equal. And so what we're talking here about is
19 high-quality MLPs and MLPs that are not cutting
20 their distribution rates. And so we think that
21 there's a big different in between what's being
22 held or not held, with the former being more
23 attractive.

24 Page 2. The Board knows what the asset
25 class is, but just as a quick reminder, I think

1 the more important point on this page is the
2 bottom right-hand corner, and that is it shows up
3 the sectors of the MLP index. And the main point
4 is, is that what the system is invested in are
5 those high-quality holdings.

6 It's the oil and gas pipelines, storage
7 facilities, transfer facilities, that make up the
8 gathering of processing oil transport and natural
9 gas transport part of the market.

10 And so the bottom line is that it's --
11 they're more conservative and generally less
12 volatile than other parts of the index.

13 If you turn to page 3, if you look at the
14 change in earnings between the MLP index, the S&P
15 energy index, and then just the broad S&P, you
16 can see that.

17 For instance, at the bottom -- this is the
18 top left-hand corner -- the S&P earnings are off
19 6.5 percent so far this year. The energy sectors
20 earnings are off 176 percent, and MLPs are down
21 13.6 percent in terms of earnings.

22 Yet if you look at what the return on the
23 index is, the index for MLPs are down more. So
24 in other words, the earnings are down in between,
25 but they're down the majority more than the other

1 indices. That shows the disconnect between what
2 fundamentals are telling us and where the pricing
3 of the actual security is.

4 Page 4. The main take-away here is the
5 ownership base and the fact that the
6 institutional ownership of the MLP marketplace is
7 less than 50 percent.

8 For various reasons, institutions have a
9 harder time holding MLPs. In a lot of cases, not
10 your case, but in a lot of cases pension funds,
11 especially corporate pension funds or other
12 institutional entities subject to unrelated
13 business, income tax, may avoid holding them.

14 But the bottom line is, MLPs -- the majority
15 of the MLPs are held by retail investors and
16 they're going through a period of tax loss
17 selling right now, and that is providing that
18 extra wind in the face.

19 MR. TUTEN: Dan, while we're still here,
20 I've got a question for you.

21 On page 2 with the graph, the market cap
22 number of MLPs, the far number on the right, is
23 that the actual number of MLPs that are in
24 existence now or out -- I see how it goes from
25 120 to 80, the far bar graph, the last --

1 MR. HOLMES: Yes.

2 MR. TUTEN: -- is that the number of
3 companies that are out there?

4 MR. HOLMES: That's the number of MLPs,
5 yeah. Number of MLPs securities.

6 MR. TUTEN: Okay. That leads to my next --
7 and I see it's dropped quite a bit.

8 But my next question was, on page 3, it says
9 the number of subsectors -- I guess my confusion
10 is how many -- are there a lot of people forming
11 MLPs anymore, or are they pretty much steady?
12 Because there's only a certain amount of pipes
13 and stuff that are available.

14 In other words, my fear is that some of
15 these companies may -- can they do like ETFs have
16 done and start, you know, branching off in a sort
17 of niche type of -- is there such a thing as a
18 niche MLP?

19 Do you understand what I'm trying to get
20 across as far as that?

21 MR. HOLMES: Well, the MLP structure itself
22 is not a niche. The MLPs -- well, the MLP
23 structure is similar to the outer REITs
24 structure.

25 I think what you're getting at is -- and you

1 correct me if I'm wrong -- can renewable energy
2 companies form an MLP and be traded in that type
3 of format? Is that -- am I correct in that
4 assumption?

5 MR. TUTEN: Yeah. That's what I'm -- what
6 I'm trying to do is -- and I'm not against MLPs,
7 don't get me wrong; I think we need them -- but
8 the only other question I have and the reason I
9 asked as far as what type of companies these are,
10 because when you put in here the -- you know, we
11 do these investments to sort of -- you don't want
12 to be correlated to this, that, so we kind of
13 hedge our bets when stuff goes up and down.

14 But, I mean, it looks to me like the MLP is
15 highly correlated to the S&P, you know, US
16 Energy. I mean, is it something that --

17 MR. HOLMES: Well, you would expect a
18 positive correlation because they're both in the
19 energy sector.

20 MR. TUTEN: Correct. But in other words,
21 would we be better served just, you know, through
22 investment with S&P, you know, type of a deal
23 with a manager, energy manager, or would --

24 MR. HOLMES: No, because the yield on these
25 securities provides a good buffer against

1 volatility. These are -- although they trade on
2 the New York Stock Exchange, like equity
3 securities, they operate like REITs, where 90
4 percent of income has to be paid out.

5 MR. KLAUSNER: I'm sorry. I was going to
6 ask, are you concerned that they're going to
7 branch off into an unrelated business?

8 MR. TUTEN: Well, no. It's just I think
9 there's a lot of confusion as far as -- my
10 concern is there's too many people in these areas,
11 to me, as far as the MLP. When you've got a -- I
12 guess I should back up.

13 My concern started when I noticed -- it's
14 with ETFs, in other words. ETFs have gone from,
15 okay, this is a gold ETF.

16 Now there are literally thousands of just
17 crazy iterations of what it started off to be.
18 And I'm kind of curious as to these MLPs. Will
19 they ever get to that point where people call it
20 an MLP, but they're really not what the original
21 MLP was started off to be, and are we investing
22 in that, is what I'm kind of concerned about.

23 MR. HOLMES: The answer is no and no.

24 MR. TUTEN: Okay.

25 MR. HOLMES: So if you look at the sectors,

1 you can see that MLPs are particular tax
2 structure, more -- bottom of page 2, right-hand
3 side. The MLP is a particular tax structure.
4 There are more MLPs coming to the market.

5 You can see that the majority of it is
6 energy related, but you can see that, for
7 instance, 1 percent is in coal, 2 percent in
8 shipping, 3 percent is propane.

9 And so they are somewhat energy related, but
10 it's not directly energy related. And so that's
11 the part that you're not investing in.

12 MR. TUTEN: Okay. I apologize. Like I say,
13 I -- the question I was trying to come up with
14 was sort of diluted.

15 MR. HOLMES: The bottom line is there are
16 more security opportunities for the managers, but
17 it hasn't exploded like ETFs.

18 So that's why, for instance, at the last
19 meeting the Board approved changes to Tortoise's
20 guidelines, allowing them to hold up to 40
21 securities in the portfolio because they are
22 finding new opportunities and using those
23 opportunities to further diversify the portfolio.

24 But with them, it's all in the long haul of
25 gas and oil pipelines, transfer facilities and

1 storage facilities. Okay?

2 MR. TUTEN: All right. Thanks.

3 MR. GLOVER: Hold on, Dan.

4 But when we first started these, was it all
5 in transport? And now I see we've got about 20
6 percent in processing. Has it always started off
7 like that?

8 MR. HOLMES: It's always been in these three
9 sectors.

10 MR. GLOVER: Really?

11 MR. HOLMES: Yes, sir.

12 MR. GLOVER: 20 percent?

13 MR. HOLMES: This is the index weight. This
14 is the index weight that's being shown here, not
15 the portfolio weight.

16 The portfolio will differ from this based on
17 the managers' use of what's attractive from a
18 bottom-up standpoint.

19 MR. GLOVER: Joey (inaudible)

20 MR. GREIVE: No, no. You know, as far as
21 the MLP exposure that you do have, I know it came
22 up over the last few months with some of the
23 troubles that we've had with energy markets over
24 the last year.

25 But it is a pretty diversified space, like

1 Dan's pointing out on that chart. You-all have
2 the exposure within the MLPs to the more safe
3 side of the space in that people pay for this
4 capacity of being able to ship through these
5 pipelines whether they're doing it or not.

6 So, you know, if you're worried about energy
7 demand, it would take a very long, very sustained
8 economic downturn before these contracts are
9 repriced, because they've got -- it's like buying
10 cable. It's like Comcast.

11 Whether you watch ESPN or not, you're paying
12 for it. And, you know, you would have to revalue
13 your opinion of ESPN before you shut off your
14 cable subscription, if you want to lose all the
15 other stuff.

16 So, no, you know, the MLP space, it would
17 have been ideal to throttle back a year ago, you
18 know, pull a little bit off the table when things
19 got a little high, and then reinvest. But you
20 don't have a crystal ball. It's tough to --
21 tough to do that. Easy in hindsight.

22 MR. HOLMES: We actually did.

23 MR. GREIVE: You pulled a little bit out.

24 MR. HOLMES: Yeah, we didn't pull all out.
25 But it had appreciated. And I think it was

1 somewhere around September of last year, we
2 pulled back on the weight to the MLP market
3 within the portfolio.

4 A I would hate to divest now, I guess is what
5 I'm saying.

6 MR. PATSY: So you're not seeing the market
7 changing materially in the next 36 months?

8 MR. HOLMES: The market or pricing of the
9 securities?

10 MR. PATSY: Pricing of the securities and
11 MLPs, because it seems to me they've been beaten
12 down pretty heavily.

13 MR. HOLMES: Yeah. No, the market -- you
14 know, we've talked about a lot of stuff. We see
15 price appreciation. As a matter of fact, what we
16 did is we modeled here -- you know, with yields
17 where they are right now, we modeled the fact
18 that -- and this is on page 5 -- if spreads
19 reprice to the normal positive, reprice the
20 normal spreads versus the ten-year treasury, the
21 rate over the next five years would be over 25
22 percent, 24, 25 percent return, the IRR.

23 If we just went to historical distribution
24 growth rate, it would be about 14 1/2 percent.

25 So the point of this presentation is to urge

1 patience. We think that there's a turn around
2 coming. There's a big disconnect between how
3 they traded here and what the economic underlying
4 fundamentals of these securities look like going
5 forward.

6 And the same way that the market recognized
7 the securities in Brown's portfolio at some point
8 in time where the market recognized quantitative
9 easing is finished, we're looking for economic
10 growth, here are sectors that have sustainable
11 growth and are extremely cheap in the market
12 rotated out of the expensive defensive sectors
13 into the sustainable growth sectors, which were
14 really cheap, we think the same thing is going to
15 happen with MLPs.

16 Investors are going to realize there's
17 nothing wrong with the fundamentals or the
18 economics of these companies. They're extremely
19 cheap. You'll see more money flow into it and
20 prices will appreciate.

21 MR. PATSY: So to cut to the chase, you're
22 not recommending us or encouraging us to reduce
23 our exposure to MLPs, but at the same time,
24 you're not encouraging us to increase our
25 allocation?

1 MR. HOLMES: That's correct. Not at this
2 time.

3 We produced this because it's been a hot
4 topic for all of our clients. And Trustee Tuten
5 and I have had a number of conversations about it
6 as well. I'm providing information for education
7 and support of the position.

8 MR. GREIVE: Through the Chair, Dan, you
9 shared an interesting statistic with me. You
10 talked about tax (interrupting cough) harvesting
11 in December.

12 MR. HOLMES: Yes.

13 MR. GREIVE: What was the statistic you
14 shared with me about January's returns for MLPs,
15 historically? Not that tax results --

16 MR. HOLMES: Not that as a guarantee, but
17 historically there has been a January effect.
18 January is a big distribution month where
19 basically think of it as dividends being paid
20 out. And in the past, over 90 percent or about
21 90 percent of returns come in January.

22 And so we do believe that there's a January
23 effect. But, again, that's something that can be
24 fleeting.

25 MR. GREIVE: Right.

1 MR. HOLMES: The underlying fundamentals are
2 not fleeting. They will be recognized.

3 MR. TUTEN: Dan, how long have people, like,
4 pension funds, invested in MLPs?

5 MR. HOLMES: Institutional ownership goes
6 back to the mid-2000s. I think our first client
7 invested in MLPs around 2006.

8 MR. TUTEN: Okay. Now --

9 MR. HOLMES: The asset class hasn't been
10 around as long as stock (inaudible).

11 MR. TUTEN: Well, that goes to my question.
12 2006 has only -- like, less than ten years. I
13 mean, what kept them from being invested with
14 institutional clients before that? And, you
15 know, why the big boom after that; in other
16 words, outside of just wanting to diversify like
17 we did?

18 MR. HOLMES: Relatively unknown asset class
19 not regularly followed by Wall Street. Initially
20 few MLPs -- or few companies took advantage of
21 the MLP structure. More have come to market
22 obviously since then. (Inaudible) traded at the
23 beginning. And then you have the issue of
24 unrelated taxable income, in which you -- if you
25 do get unrelated business taxable income, you

1 would have to file more tax forms.

2 And then, finally, traditionally viewed as a
3 tax shelter for individuals as opposed to a
4 security traditionally held in -- broadly held in
5 institutional portfolios.

6 Sometimes you would see them pop up in small
7 cap value manager portfolios along with REITs.

8 CHAIRMAN SCHMITT: If I could make a
9 suggestion here, although very interesting and
10 exciting, if we would like to expand this, we
11 could do a workshop just on MLPs, but I think we
12 need to move along in the agenda here.

13 MR. HOLMES: Understood. And I appreciate
14 it.

15 MR. KLAUSNER: Did you have other action
16 items that you need to address?

17 MR. HOLMES: The only action item is, I
18 have -- pursuant to the Board's direction, I have
19 drafted amendments showing in redline to the
20 investment policy.

21 It the Board would like to take action on
22 those, we can do it, or if the Board wants to
23 read through it and take action later on, we can
24 do that as well.

25 CHAIRMAN SCHMITT: I'm going to make a

1 recommendation that we review those, defer to the
2 next meeting and vote on it at the next meeting.

3 MR. KLAUSNER: I'll give you a brief memo on
4 any legal compliance issues.

5 CHAIRMAN SCHMITT: Very good.

6 MR. SCHEU: I appreciate that, Mr. Chairman.

7 CHAIRMAN SCHMITT: All right. You're still
8 with us. That's good to hear.

9 MR. KLAUSNER: I have done a quick review.
10 I didn't see any compliance issues, but I want to
11 read it more thoroughly.

12 MR. HOLMES: The majority of the changes are
13 incorporating the language directly from the
14 ordinance, and that also -- the language adopted
15 last month with regard to fees, in terms of the
16 negotiating fee discounts where the managers used
17 by both the city system and the police and fire
18 system, that languages has been added as well.

19 MR. GREIVE: Is that available?

20 MS. MANNING: That came from the last
21 meeting, and I'm not sure that I have anything on
22 it from the last meeting.

23 MR. HOLMES: Okay.

24 MS. MANNING: Is that something --

25 MR. GREIVE: So for the January Board

1 meeting, the Brown Advisory Fee Amendment will be
2 before the Board for a vote.

3 If you recall, last month we talked about
4 negotiating a discount with them because the city
5 is adding a ton of money to them right now.

6 So between the two of us, we'll meet the
7 next breakpoint level, and they've agreed to
8 lower the fees for both funds. So that amendment
9 will be in front of the Board for the next
10 meeting.

11 MR. KLAUSNER: I've read that contract.
12 That's one is fine, but I think an explanation of
13 why there is a value to working closely with the
14 General Employee Retirement System to achieve
15 economy is appropriate.

16 CHAIRMAN SCHMITT: I think that's another
17 great example of fee reduction through mostly
18 Joey's good work and hard work with making sure
19 we get the lowest fees possible by combining the
20 strength of other pension plans.

21 MR. HOLMES: Yeah. And then in addition to
22 that, since then I've also negotiated a fee
23 discount or aggregation of fees with Eagle as
24 well.

25 CHAIRMAN SCHMITT: Good.

1 MR. HOLMES: So we'll show that at the next
2 meeting as well.

3 MR. GREIVE: We've already signed our
4 amendment with them, I believe. Maybe, maybe
5 not. We'll talk later today.

6 CHAIRMAN SCHMITT: Anything else for
7 Mr. Holmes?

8 MS. McCAGUE: Baillie Gifford. Anything on
9 Baillie Gifford?

10 MR. HOLMES: I'm not seeing that on the --

11 MR. KLAUSNER: It's right at the top of the
12 report.

13 MR. GREIVE: Baillie Gifford reduced the
14 fees for both of our funds, didn't they,
15 recently?

16 MR. KLAUSNER: It's 12-9. It was changed as
17 to broker commission, equity trading.

18 MR. HOLMES: Yeah. So what that is -- I
19 don't believe -- that was a notice. I don't
20 believe any action is necessity.

21 What it is -- and actually I met with them
22 yesterday morning. They are moving from a
23 traditional way of trading the portfolio where
24 they're using commissions to pay for research to
25 an execution-only operation. They are going to

1 pay for research out of their own pocket going
2 forward.

3 So this is increased transparency and a
4 benefit to the system, but that was simply a
5 notice. No other action is necessary.

6 MS. McCAGUE: And our fees reduced?

7 MR. HOLMES: No. This has nothing to do
8 with fees. It has to do with costs that are
9 netted out in performance.

10 MS. McCAGUE: Thank you.

11 CHAIRMAN SCHMITT: Any other questions for
12 Dan?

13 All right. Thank you for being here today.
14 We appreciate it.

15 MS. McCAGUE: Thank you, Dan.

16 MR. HOLMES: My pleasure. Thank you. I
17 hope everyone has good holidays.

18 MR. KLAUSNER: Thank you. Enjoy the
19 holidays. Safe travels.

20 MR. HOLMES: Thanks.

21 (Mr. Holmes exited the Board meeting.)

22 CHAIRMAN SCHMITT: All right. We'll move on
23 with the agenda.

24 The next item is Personnel Committee.
25 Recommendations from the committee.

1 MR. GLOVER: Okay. Personnel Committee --
2 and we had some discussion about this earlier
3 when our controller, Devin, was hired.

4 He was actually inadvertently put in the
5 wrong step class. And we -- and I think when
6 that happened, Mr. Keane indicated that we can go
7 ahead and correct that when he finishes
8 probation, which is the beginning of the year,
9 January 1st.

10 And so what we are recommending is that we
11 go ahead and do that. He's in 22 now, and at the
12 end of January, we want to put him in 23. And
13 that would be the first action. And just to
14 bring it all in context, we also are further
15 recommending that, you know, after we do that, we
16 go ahead and make him CFO, Chief Financial
17 Officer.

18 And this might take two actions. And, of
19 course, when that happens, he will just move up
20 to step class 24, which would be consistent with
21 his duties and responsibilities in that area,
22 because he actually is already performing many of
23 the duties and responsibilities that John was
24 doing consistent with the memo that you-all have.

25 CHAIRMAN SCHMITT: So the first motion is to

1 move from class 22 to class 23.

2 MR. GLOVER: January 1st.

3 CHAIRMAN SCHMITT: That's the motion. Do we
4 have a second?

5 MR. PATSY: Educate me.

6 CHAIRMAN SCHMITT: Yes.

7 MR. PATSY: Can you go into a little more
8 detail?

9 CHAIRMAN SCHMITT: With the city employees,
10 they are set up in different classes, and the
11 class basically dictates what pay range they can
12 be in.

13 In this situation, Devin came over from the
14 city. He was with city budget and class 22.
15 He's actually functioning -- when he first came
16 here, he should have been in class 23, but
17 somehow he got classified as class 22.

18 MR. GLOVER: It was inadvertent.

19 CHAIRMAN SCHMITT: Since he's been here,
20 we've given him additional responsibilities to
21 include the duties of Chief Financial Officer,
22 but we still have him as a class 22.

23 And since I've become chairman, I've loaded
24 him up quite a bit with additional
25 responsibilities. And as needed, you know, with

1 the retirement of John, some of those
2 responsibilities had to go to different
3 personnel. And Devin has stepped up every single
4 time he's given additional responsibilities.
5 He's done a very good job at that.

6 In addition to that, to remain competitive,
7 I want to keep him here because I think it's
8 beneficial to the Board to keep him here. In
9 order to keep him there, we've got to keep him at
10 a competitive pay scale.

11 MR. PATSY: That makes sense. Okay.

12 CHAIRMAN SCHMITT: I agree with your
13 recommendation.

14 MR. GLOVER: Right. And so I would think,
15 just to make it clean, that we do it in two
16 steps. Okay? Put him in the correct class
17 first, which will be effective January 1st, and
18 then come back to CFO.

19 CHAIRMAN SCHMITT: So you want to do just
20 class 22 to class 33 --

21 MR. GLOVER: First.

22 CHAIRMAN SCHMITT: First. Okay.

23 MS. McCAGUE: As of January 1st.

24 MR. GLOVER: As of January 1st.

25 CHAIRMAN SCHMITT: So that's the motion. Do

1 we have a second?

2 MR. PATSY: I'll second it.

3 CHAIRMAN SCHMITT: Any further discussion?

4 (No responses.)

5 CHAIRMAN SCHMITT: Bill, are you still with
6 us?

7 MR. SCHEU: Yes, I am.

8 CHAIRMAN SCHMITT: Okay. All in favor?

9 (Responses of "aye.")

10 CHAIRMAN SCHMITT: Opposed?

11 (No responses.)

12 CHAIRMAN SCHMITT: So that passes.

13 MR. GLOVER: And, of course, the second step
14 would be to -- as you have so correctly
15 indicated, be consistent with his duties and
16 responsibilities to move him to the status of
17 CFO, Chief Financial Officer.

18 And that will also happen January 1st and,
19 of course, that would be the appropriate next
20 step additional increase to 24.

21 CHAIRMAN SCHMITT: All right. So the motion
22 is to move from class 23 to class 24 to CFO
23 January 1, 2016. That's the motion. Do we have
24 a second?

25 MR. PATSY: Second.

1 CHAIRMAN SCHMITT: All right. We have a
2 second. Discussion?

3 (No responses.)

4 CHAIRMAN SCHMITT: All in favor?

5 (Responses of "aye.")

6 CHAIRMAN SCHMITT: Bill? Mr. Scheu, are you
7 still there?

8 We may have lost him.

9 MR. SCHEU: I'm still here. I had another
10 call come in that wouldn't let me talk. I voted
11 yes.

12 CHAIRMAN SCHMITT: All right. Great.

13 Opposed?

14 (No responses.)

15 CHAIRMAN SCHMITT: All right. The motion
16 passes.

17 MS. McCAGUE: Congratulations.

18 CHAIRMAN SCHMITT: I expected to lose you
19 when Dan was speaking, but not this portion.

20 MR. GLOVER: We want to initiate another
21 conversation on MLPs.

22 (Laughter)

23 CHAIRMAN SCHMITT: All right. We'll move on
24 to Old Business. The first item under Old
25 Business is the 2015 Annual Retiree Pension Bonus

1 Calculation Report. That's 2015-10-2SM.

2 MS. McCAGUE: That's for information. Devin
3 will speak to that.

4 CHAIRMAN SCHMITT: All right. The bonus
5 calculation for the retirees.

6 MR. CARTER: This is attachment 2015-10?

7 CHAIRMAN SCHMITT: Yes.

8 MR. CARTER: Yeah. This is for information
9 purposes only which we showed at the last
10 meeting, but also to just touch base on that with
11 the share plan, was that we had some of the
12 questions come up that we just need to address.

13 CHAIRMAN SCHMITT: Just a summary on this.
14 The pension plan receives approximately \$5
15 million, a little bit more this year, in chapter
16 funds that the allocation of which is up to the
17 Board as to how much of that goes towards the
18 Peyton bonus plan for the retirees and how much
19 goes into the new share plan.

20 We had voted that almost \$2 million would go
21 to the retirees. The remainder would go into the
22 share plans. So this is showing that calculation
23 comes out to \$1,999,746.59 that went to the
24 bonus. We will show that as information
25 purposes.

1 MR. TUTEN: Devin, was that bonus up here,
2 the 2.63 percent, is that what it equated to for
3 the retirees?

4 MR. CARTER: Yes. Because we're limited to
5 2 million based on --

6 MR. TUTEN: Rounded up, it's almost 3-.

7 MR. GLOVER: Historically it has been pretty
8 much level 3, right?

9 MR. CARTER: Yes.

10 CHAIRMAN SCHMITT: But with this share plan,
11 we shifted a little bit more towards the current
12 members.

13 MR. GLOVER: I know I won't be here, but we
14 vote on that each year, right?

15 CHAIRMAN SCHMITT: Yes.

16 MR. GLOVER: Okay. Yeah.

17 MR. TUTEN: A quick note while we're on that
18 subject for the chairman and Beth, while we're on
19 this, members are starting to call me and ask
20 about the share plan as far as how it's being
21 implemented. You know, can they see their
22 balance, all that good stuff.

23 I, of course, don't have an answer for them
24 at the moment. But I just wanted to alert, you
25 know, you that we need to do something as far as,

1 you know, explain to them this is what it is,
2 this is how much you've got, et cetera, et
3 cetera, because that seems to be a very popular
4 topic these days from the fire department.

5 MS. McCAGUE: Mr. Chairman, Devin might want
6 to speak to that.

7 MR. CARTER: We are working with IT
8 currently now, and we hope to have a system ready
9 by January 30th.

10 MR. TUTEN: Okay.

11 MR. CARTER: So at least probably the first
12 week of February they would be able to review
13 that information.

14 MR. TUTEN: Okay.

15 MS. McCAGUE: But what we might want to do,
16 Devin, is get an information piece out just
17 saying that we're working on this and let them
18 know when they would get their statement. We can
19 get that out early in January.

20 MR. CARTER: Yes. And I will also go to
21 Klausner's website and get some information about
22 the share plan for them too, showing what it's
23 all about.

24 MR. SCHEU: Yeah. I would think you would
25 want to do it as of month end. So the December

1 31st date would probably be good.

2 MS. McCAGUE: I'm sorry. Repeat that,
3 please, Bill.

4 MR. SCHEU: It would just seem to me the
5 year-end statement, starting it, would be good
6 and not mid-month. So that would sit well in
7 January.

8 MS. McCAGUE: Well, the first statement will
9 be January 31st, and it would be based on the
10 fund balances as of 9/30.

11 CHAIRMAN SCHMITT: The first payment is set
12 to come in in January. It will earn whatever the
13 fund earns. So it won't impact how much each
14 member earns or receives, but the accounting for
15 it is still being set up through city ITD and
16 that's obviously taking a little longer than we
17 had hoped. But it won't impact their actual
18 amount they receive or what they will earn. But
19 we'll try to get those statements out by the end
20 of January.

21 MS. McCAGUE: But we could get out just an
22 informational piece about what to expect at the
23 end of the month early in January.

24 Thank you.

25 MR. TUTEN: That's perfect. Thank you.

1 MR. PATSY: Is this something that we've
2 already voted on in a previous meeting?

3 CHAIRMAN SCHMITT: Yes, yes.

4 MR. PATSY: Okay.

5 CHAIRMAN SCHMITT: All right. So move on to
6 2015-10-5. Resolution to appoint fifth trustee
7 to the Board of Trustees.

8 I would like to bring forward a nomination
9 to appoint Mr. Willard Payne. Mr. Willard Payne
10 is a local businessman. He's had over 35 years
11 of hands-on experience managing 100 percent
12 minority-owned businesses. He owned, I believe
13 it was, four McDonald's restaurants back in the
14 1990s here in Jacksonville.

15 He was the first African-American to own
16 McDonald's franchises here in Jacksonville. He's
17 been a part of this community for many, many
18 years and has served on many boards, including
19 Jacksonville Port Authority, the Gator Bowl
20 Association, Jacksonville Chamber of Commerce,
21 Sports Development Council, Jacksonville
22 Community Development Foundation, JIA Community
23 Redevelopment Agency, and many more. You can see
24 on his résumé here.

25 I think his experience, his expertise in

1 business dealings, he would be a good asset to
2 the Board and to the City. So I'm recommending
3 him.

4 And he also has accepted -- if we vote to
5 have him on the Board, he has accepted that
6 nomination. Hopefully you-all have received his
7 résumé ahead of time.

8 MR. PATSY: I've got it now.

9 CHAIRMAN SCHMITT: Your first time?

10 MR. PATSY: Yes. Educate me, because I was
11 here for the November meeting and there were
12 discussion of two other members. Have these two
13 other members been excluded?

14 CHAIRMAN SCHMITT: What happened on the
15 other two members is we couldn't get a second to
16 vote on them as -- well, one of the members. We
17 couldn't get a second to vote on him to be
18 accepted.

19 The second member, Macksey, withdrew his
20 application or nomination.

21 MS. McCAGUE: And we do need to get that in
22 the record, that he withdrew his application.

23 CHAIRMAN SCHMITT: Yes. So he did withdraw
24 his application. So this is a new nomination.

25 MR. PATSY: And what's the process that we

1 normally go through to select this fifth member?

2 CHAIRMAN SCHMITT: The four other members of
3 the Board, a majority has to approve it, and then
4 it goes to the City Council basically as a
5 administerial approval.

6 MR. PATSY: Do we normally bring individuals
7 in to meet them?

8 CHAIRMAN SCHMITT: Yes. He wasn't able to
9 make it today, but, yes, we can.

10 My intention was for us to meet him ahead of
11 time, but I just couldn't work it out.

12 MR. PATSY: So are we going to be asked to
13 vote on this today, or are we going to be given
14 the opportunity to meet with the individuals
15 beforehand?

16 CHAIRMAN SCHMITT: Well, I would like to
17 bring it up for a vote.

18 Mr. Scheu, are you familiar with Mr. Payne?

19 MR. SCHEU: I've known Willard Payne for
20 many years.

21 CHAIRMAN SCHMITT: Okay. Rich, have you
22 ever met Mr. Payne?

23 MR. TUTEN: I have not, no.

24 CHAIRMAN SCHMITT: Sheriff Glover obviously
25 has been remaining on the Board at our request --

1 (Phone disconnected with Mr. Scheu.)

2 CHAIRMAN SCHMITT: Mr. Scheu, are you still
3 there?

4 MR. GREIVE: No, he dropped off.

5 CHAIRMAN SCHMITT: Okay.

6 MR. KLAUSNER: We need him back because you
7 need to vote.

8 CHAIRMAN SCHMITT: Yes.

9 MR. GREIVE: While we're waiting, can a
10 current sitting trustee meet with a potential
11 trustee ahead of time, a nominee?

12 MR. KLAUSNER: Yes, because he's not a
13 public official until he's appointed.

14 Are you asking if that's a Sunshine problem?
15 The answer is no.

16 MR. GREIVE: Okay. Good.

17 MR. KLAUSNER: Once he is appointed --

18 MR. GREIVE: Then it's an issue.

19 MR. KLAUSNER: Yeah. And I would also
20 refrain from discussing how that person would
21 vote on future matters. It's just a
22 meet-and-greet.

23 MS. MANNING: Can you hear us okay?

24 MR. SCHEU: Yes. Sorry. I don't know what
25 happened.

1 MS. MANNING: I'm not sure either.

2 MR. SCHEU: I was just saying I've known
3 Willard for many years. He's an outstanding
4 community citizen, businessman, very respected.
5 And I would be willing to make the motion to --
6 unless somebody else wants that honor, and then I
7 don't know if Rick wants to -- Rick needs to be
8 comfortable with him, but I can assure him that
9 he would be a fine member.

10 CHAIRMAN SCHMITT: Okay.

11 MR. GLOVER: Well, I would like to speak too
12 and clear it with counsel.

13 I agree with Bill's comment, and I would
14 just add, Willard Payne has been stellar in this
15 community. And I think his reputation -- if you
16 look at his résumé here on boards, his reputation
17 is certainly unquestionable in my mind. And, of
18 course, with his experience on these prestigious
19 boards is quite obvious and, in fact, as
20 articulated in his résumé.

21 So with that, without hesitation or
22 reservation, he has my ringing endorsement.

23 CHAIRMAN SCHMITT: And I guess a point of
24 order here. Am I allowed to bring up the motion
25 as the Chair?

1 MR. KLAUSNER: Sure.

2 CHAIRMAN SCHMITT: Okay. That is my motion,
3 to bring Mr. Willard Payne on as the fifth
4 trustee.

5 MR. SCHEU: I think actually the chairman
6 can't make the motion. Somebody else would need
7 to make the motion, which I indicated I would be
8 willing to unless somebody else wants the honor
9 of doing that.

10 MR. KLAUSNER: You know, you're the judge of
11 your own rules of procedure, the Board is.
12 You're not statutorily bound to Robert Rules of
13 Parliamentary Procedure or Mason's Rules of
14 Procedure or any of the other private
15 associational rules.

16 We don't actually have rules. The Chair is
17 the elected police officer on the Board at the
18 present time. So all trustees are equal.

19 But if you want the Chair only to make a
20 motion in some other circumstance, you can do
21 that. But there's no legal prohibition to the
22 Chair making a motion.

23 CHAIRMAN SCHMITT: I'll accept Trustee's
24 Scheu's motion. I'll let him make the motion.
25 And do we have a second?

1 MR. TUTEN: Second.

2 CHAIRMAN SCHMITT: Any discussion?

3 MR. PATSY: Yes. Can we make this -- I
4 would like to meet this gentleman. And can we
5 make it pending -- make it unanimous if we vote
6 on it and everybody agrees on it, make it
7 unanimous pending my opportunity to meet with
8 him, and I can email the rest to Beth and she can
9 distribute --

10 MS. McCAGUE: Perhaps we might need some
11 advice. Maybe what we can do is have Mr. -- we
12 need three of the five -- three of the remaining
13 four to vote positive in order to approve this.

14 MR. KLAUSNER: All four of you have to vote
15 either yea or nay.

16 MS. McCAGUE: We can't have one withhold?

17 MR. KLAUSNER: No, because if you're here,
18 you can't abstain under the Sunshine Law unless
19 you have a conflict of interest.

20 MR. PATSY: Okay.

21 CHAIRMAN SCHMITT: But you can -- if you
22 vote to approve, I have no reason -- oh, I see.
23 You want to meet him before he's appointed.

24 That's a -- you know, you can't -- once he's
25 appointed, you would have to notice a meeting to

1 talk to him about the Board.

2 MR. PATSY: So you can't approve things via
3 email?

4 MR. KLAUSNER: No. No. Unlike the
5 corporate world -- actually, the City Council has
6 to be -- but this would be the end of the
7 Board -- for those who don't know, the selection
8 of the fifth member is actually the Board's
9 choice.

10 Now, the City Council has the ministerial
11 act of approving it. They don't have the right
12 to say no. They just -- I don't know why that's
13 in the statute, but it is.

14 But once you've voted, you're done with your
15 work, and I think to meet with him outside of a
16 public meeting would risk a Sunshine violation
17 that's not worth it.

18 MR. PATSY: Well, see, I can't meet with him
19 once we approve him.

20 MR. KLAUSNER: Right.

21 CHAIRMAN SCHMITT: Well, that's -- that's
22 not totally correct. You can meet with him. You
23 just cannot discuss Board business.

24 MR. KLAUSNER: Right. I mean, you can have
25 lunch with him, but you can't -- the likelihood

1 of the discussion straying into that area is
2 high. There's actually several attorney general
3 opinions that say if members of a board or
4 commission happen to be at a social event
5 together, they're allowed to talk to each other,
6 but presumably the purpose of the conversation is
7 to know more about him to assure yourself that
8 you've made the right decision.

9 That, in my view, is going to get into
10 reasons, you know, that -- you know, if you're
11 going to approve him today, that that would
12 probably be precluded.

13 MR. PATSY: All right. That's fine. I got
14 it.

15 CHAIRMAN SCHMITT: Any further discussion?

16 (No responses.)

17 CHAIRMAN SCHMITT: So to appoint Mr. Willard
18 Payne as a member of the Board of Trustees, is
19 the motion. We have a second.

20 All in favor?

21 (Responses of "aye.")

22 CHAIRMAN SCHMITT: Opposed?

23 (No responses.)

24 CHAIRMAN SCHMITT: Passes unanimously.

25 MR. KLAUSNER: So, Mr. Chairman, what would

1 be appropriate is to send a letter to the
2 president of the City Council, pointing out that
3 you've appointed Mr. Payne as the fifth member,
4 asking that he be placed on the council agenda.
5 Hopefully we can get him confirmed before the
6 January meeting so that --

7 MS. McCAGUE: Right. And what we have ready
8 to go to council is a resolution --

9 MR. KLAUSNER: Perfect.

10 MS. McCAGUE: -- that they can put into
11 their meeting for the first week of January.

12 MR. KLAUSNER: Excellent. And he will be
13 able to be seated and Sheriff Glover will be
14 officially relieved of this burden.

15 CHAIRMAN SCHMITT: And I want to touch on
16 that. I know we talked about it before.
17 Obviously --

18 MR. GREIVE: Honorably discharged, of
19 course.

20 CHAIRMAN SCHMITT: -- you're probably
21 feeling a very big relief, but we still certainly
22 have benefited from your leadership on this
23 Board. Thank you again. We really appreciate
24 it.

25 MR. GLOVER: Thank you. I appreciate the

1 opportunity to serve. And it has nothing to do
2 with anything other than the fact that my
3 calendar is crazy. I appreciate the opportunity
4 to serve. Thank you.

5 MS. MANNING: Larry, I'm sorry. Who was
6 first and second on that?

7 CHAIRMAN SCHMITT: Mr. Scheu -- Trustee
8 Scheu was first and I believe Tuten was second.

9 Mr. Scheu, are you still with us?

10 MR. SCHEU: Yes.

11 (Phone noise interruption.)

12 CHAIRMAN SCHMITT: We're getting about every
13 other word.

14 (Phone connection stopped.)

15 CHAIRMAN SCHMITT: All right. The next item
16 on the agenda is 2015-10-1SMC. John Keane
17 Transition Agreement. See the attachment.

18 This is the new agreement for -- between the
19 Board and John Keane. It runs through January
20 31st.

21 Basically the change in this one reduces or
22 puts a cap on the total number of hours. 24
23 hours per week for the next nine weeks. There is
24 some flexibility. We can pay him more hours in
25 one week and less in the next week; but, overall,

1 in that full nine-week period, we will not pay
2 him more than 24 hours total per week.

3 MR. TUTEN: Do we need a motion?

4 MR. KLAUSNER: You need a motion to approve.

5 MS. McCAGUE: To ratify the agreement.

6 CHAIRMAN SCHMITT: Do we have a motion?

7 MR. TUTEN: Yeah. I'll make one.

8 MR. GLOVER: Second.

9 CHAIRMAN SCHMITT: Second.

10 Any further discussion?

11 (No responses.)

12 CHAIRMAN SCHMITT: All in favor?

13 (Responses of "aye.")

14 CHAIRMAN SCHMITT: Opposed?

15 (No responses.)

16 CHAIRMAN SCHMITT: Passes.

17 The next item is 2015-11-5, the Independent
18 Contractor Agreement between the Board and Beth
19 McCague as Interim Executive Director, Plan
20 Administrator.

21 I believe you-all have received a copy of
22 this ahead of time. Hopefully you've had a
23 chance to review it. Again, we need a motion on
24 this to approve it.

25 MR. TUTEN: Anybody make a motion yet?

1 MR. GLOVER: Yeah. I'll move it.

2 MR. TUTEN: I'll second.

3 CHAIRMAN SCHMITT: Motion from Sheriff
4 Glover, second by Trustee Tuten.

5 Discussion on this?

6 (No responses.)

7 CHAIRMAN SCHMITT: All right. All in favor?

8 (Responses of "aye.")

9 CHAIRMAN SCHMITT: Opposed?

10 (No responses.)

11 CHAIRMAN SCHMITT: Passes.

12 MS. McCAGUE: Thank you.

13 CHAIRMAN SCHMITT: Under New Business, the
14 first item under Legal, Update on lawsuit of City
15 of Jacksonville versus PFPF Board of Trustees and
16 John Keane.

17 MS. McCAGUE: I'll just give a quick report
18 on that.

19 The Board did engage Jake Schnickel to
20 defend the Board in this process. We are
21 checking in regularly with Jake Schnickel, who is
22 checking in with the attorney at the Office of
23 General Counsel. And we understand that a
24 general settlement has been reached and the
25 agreement is making its way through City Hall and

1 City Council.

2 That's the only update I have at this point.

3 MR. KLAUSNER: Just for our new Board
4 member, we engaged additional counsel on that
5 because with my tenure with the Board, I'm a
6 witness to some of the institutional and
7 historical events. And I informed the Board that
8 it would be a conflict for me to represent the
9 Board when I'm also a witness about fact issues.

10 CHAIRMAN SCHMITT: Okay. We will show that
11 for information purposes received.

12 Next item, 2015-12-3, email to OGC regarding
13 future legal services.

14 I sent an email to Jason Gabriel, reference
15 the obvious conflict of interest with OGC being
16 the attorneys that are suing the Police and Fire
17 Pension Fund related to the loss we previously
18 mentioned.

19 And with that built-in conflict, I
20 recommended that OGC not do any additional work
21 for the Board except for, as we mentioned before,
22 the public-records-request type of work to avoid
23 that conflict for the attorneys working for OGC
24 and trying to do work for the pension plan.

25 So, again, that's shown for information

1 purposes.

2 MR. TUTEN: May I ask Bob a quick question?

3 CHAIRMAN SCHMITT: Yes.

4 MR. TUTEN: Mr. Gabriel made a point here
5 that says that special law may trump statutory
6 provisions of general law in the state.

7 Are there provisions where a local law with
8 the city would actually trump a state law?

9 MR. KLAUSNER: There are circumstances in
10 which a local law can trump a state law; however,
11 chapters 175 and 185 make it clear that the
12 legislature has preempted that subject to itself,
13 and it says that a Board of Trustees for the
14 Police and Fire Pension Fund can use the
15 municipal legal department on terms satisfactory
16 to the Board.

17 There are places where I work with city
18 attorneys and we do some stuff and they do some
19 stuff, or there are places where we don't do --
20 you know, where we do all of it. I mean, it's up
21 to you. You're the client.

22 But the local law that actually is the
23 latest in time and the most specific is Article
24 22 of the City Charter, which is two special acts
25 of the legislature creating this Board. And it

1 says you have the right to hire your own lawyer
2 and that any charter provision in conflict is
3 repealed.

4 CHAIRMAN SCHMITT: Part of the other side of
5 the argument is that the charter would allow us
6 to still use the OGC attorneys, even though
7 they're suing us.

8 And my view of that is, even if it would
9 allow it, I don't see a reason why we would do it
10 with that conflict of interest. To me it's not
11 in the best interest of the members of the fund
12 to hire the attorneys who sue us.

13 MR. PATSY: But once this case is resolved,
14 then we start over?

15 CHAIRMAN SCHMITT: Well, in the Pension
16 Reform Agreement, in there it specifies that we
17 will use OGC for nonpension issue-related
18 services, such as a building contract or public
19 records. Those nonspecific pension-related legal
20 issues.

21 But for specific pension issues, we will
22 continue to hire our own attorney.

23 MR. PATSY: Wouldn't it be more
24 cost-effective to use OGC, though?

25 CHAIRMAN SCHMITT: In some cases, possibly.

1 But we continue to run into the conflicts of
2 interest with using OGC. They don't always see
3 those pension issues the same way the Board sees
4 it. And to keep that independence, we've
5 retained the right, and it's in the statutes, for
6 us to be able to hire our own legal counsel for
7 pension specific-related issues.

8 MR. PATSY: My experience with the City's
9 plan, we had OGC and we also had --

10 MR. KLAUSNER: I'm still around.

11 MR. PATSY: -- outside counsel --

12 CHAIRMAN SCHMITT: Right.

13 MR. PATSY: -- and I've always had good
14 experience with OGC. It's always proved to be
15 pretty cost effective. And whenever we
16 encountered an issue that was beyond their scope,
17 you know, we obtained outside counsel.

18 CHAIRMAN SCHMITT: And like I said, on
19 all -- and it's in the new agreement that all of
20 those nonspecific -- pension-specific issues, we
21 will use OGC, and I think we will go back to that
22 once this is resolved.

23 MR. PATSY: Okay.

24 MR. KLAUSNER: If I could, Mr. Chairman,
25 because Trustee Patsy hadn't heard the earlier

1 discussion, I fully have recommended using OCG
2 for commercial matters. You know, things related
3 to our building, other types of real estate
4 things, and for public records because I thought
5 it was more cost effective for the Board to do
6 that.

7 I'm the pension specialist and recommended
8 that matters that fall within that area of the
9 law is where my specialty lies.

10 MR. PATSY: Right. So when you say
11 "pension-related issues," do you mean pension
12 benefit-related issues or something like, are we
13 referring to contract negotiations with outside
14 managers or, you know, what's the scope?

15 MR. KLAUSNER: That's a perfect example. I
16 don't do vendor contracts.

17 MR. PATSY: Okay.

18 MR. KLAUSNER: Now, investment contracts,
19 yes. Those come to me, particularly the more
20 complex ones, where, like, limited partnerships
21 are involved.

22 MR. PATSY: Sure.

23 MR. KLAUSNER: And benefit issues come my
24 way or constitutional issues related to your
25 fiduciary duties.

1 What I would call general legal services,
2 which are -- you gave a perfect example -- vendor
3 contracts, I think it's easier to use OGC. I
4 have an excellent working relationship with them.
5 And as you mentioned, I handle those types of
6 specialty items for the city retirement system
7 and have been for 15 years probably.

8 MR. PATSY: Okay. Good.

9 CHAIRMAN SCHMITT: Any further discussion on
10 that one?

11 (No responses.)

12 CHAIRMAN SCHMITT: Okay. We'll show that as
13 received for information purposes.

14 The next item is a letter from me as
15 chairman to Klausner's firm. In light of the
16 negative publicity related to the Siedle report,
17 I found it appropriate to ensure Mr. Klausner's
18 other pension clients that we as a board still
19 have confidence in the Klausner firm,
20 specifically Mr. Klausner himself.

21 We are happy with the service he has
22 provided and continue to be happy with the
23 service he has provided. So we'll show that --

24 MR. KLAUSNER: This month marks 27 years.
25 And I appreciate -- sorry, 28.

1 CHAIRMAN SCHMITT: We'll show that one for
2 informational purposes as well.

3 The next matter is the Tower Group
4 settlement, 2015-12-5.

5 MR. KLAUSNER: Yes. That's one of our
6 securities litigation cases which is -- you know,
7 the Board doesn't -- isn't billed fees for. It's
8 a class action where we were holder of Tower
9 stock.

10 Tower was the parent -- I've given some
11 correspondence on this previously. For
12 Mr. Patsy, they were an umbrella organization
13 over a bunch of insurance companies. And they
14 were funneling money down to the subsidiaries,
15 and Tower underreported the value of its reserve,
16 of its own reserves.

17 And when that misstated accounting became
18 public, the Tower stock value dropped
19 considerably. Tower -- actually, the parent --
20 the umbrella company was effectively insolvent;
21 but we were able, together with several other
22 pension funds -- a Danish fund, Kansas City --
23 the City of Kansas City Retirement System, and
24 two Taft-Hartley funds, which are private sector
25 trade association pension funds -- able to

1 negotiation a resolution from their insurance
2 carrier of 22 1/2 million.

3 The reason it was on for a report is because
4 the claim form came in, and I've reviewed what to
5 do with Devin to make sure that we got our claim
6 filed by December 28th.

7 MR. PATSY: So let me make sure I've got
8 this.

9 It was a \$23 million settlement. What was
10 our portion of that settlement?

11 MR. KLAUSNER: It will depend on the size of
12 our loss, which I think was close to -- I think
13 170-something thousand, how many people fill out
14 a claim form, because these are -- it's
15 essentially a nonrecourse pool --

16 MR. PATSY: So we -- it's indeterminate yet?

17 MR. KLAUSNER: The claim period ends on the
18 28th. Everybody has to send in their forms, and
19 whatever is there is there.

20 There is a part of the case that is
21 continuing against the former auditors for Tower
22 who are more solvent than the company and against
23 some individuals. So we hope to be able to
24 recover more for the class.

25 CHAIRMAN SCHMITT: And just to give you a

1 little more overview, I believe it works the same
2 on the city pension side. These lawsuits, when
3 they arise, Mr. Klausner's firm takes those on on
4 a contingency basis. We don't -- the fund does
5 not pay them for -- while this is going on.

6 So if it goes through the entire process,
7 and however much time they spend on it, if the
8 court decides there is no settlement, they eat
9 those -- that cost. We still don't pay them.
10 The only time they get paid -- Klausner's firm
11 gets paid is if the lawsuit -- the judge orders a
12 settlement.

13 And out of that settlement a portion goes to
14 the investors, which is the fund, and a portion
15 goes to the attorneys. And the courts decide how
16 much the attorneys get and which attorneys get
17 how much out of that portion.

18 So when -- we don't have any discretion over
19 how much the attorneys get paid. That's all up
20 to the courts. Our benefit is while that's going
21 through an entire process, the fund doesn't have
22 to pay any money to the attorneys during that
23 entire process.

24 MR. PATSY: All right. So do you do
25 securities litigation as well?

1 MR. KLAUSNER: Yes, sir.

2 MR. PATSY: Okay. Because I -- the way I've
3 always worked it, we've always used our custodian
4 to do those and they track it and file a claim,
5 and we've never used securities litigation.

6 With the city, we just engaged three
7 litigations firms. We don't use Bob's firm to do
8 that. Or we didn't use them.

9 MR. KLAUSNER: We work with five securities
10 litigation firms. I generally sign on all the
11 pleadings. I read all the pleadings. I go to
12 all the hearings. I go to the mediation, because
13 I want to be sure that as a lead plaintiff, that
14 we're fulfilling our duties to the class as a
15 whole. And I do not bill the fund for my time.

16 MR. PATSY: Okay. When one of these cases
17 comes up, is it brought to the Board first?

18 MR. KLAUSNER: Usually the -- well, you have
19 a detailed securities litigation policy which the
20 Board had for expediency -- time -- some of these
21 are very time sensitive.

22 So they've left it to the executive director
23 and I, but if there is an opportunity for
24 settlement, it comes back here.

25 MR. PATSY: Okay. Thank you.

1 MR. KLAUSNER: No problem.

2 CHAIRMAN SCHMITT: And it's 10:34. Let the
3 record reflect that Trustee Glover had to leave
4 the meeting. We still have a quorum.

5 (Mr. Glover exited the Board meeting.)

6 MS. McCAGUE: Do we still have Mr. Scheu or
7 has Mr. Scheu exited?

8 CHAIRMAN SCHMITT: Mr. Scheu --

9 MR. KLAUSNER: Is Mr. Scheu still here?

10 CHAIRMAN SCHMITT: I believe we lost
11 Mr. Scheu on the phone as well, but we still --

12 MR. KLAUSNER: You still need three. And
13 any votes that you have for now on have to be
14 unanimous.

15 CHAIRMAN SCHMITT: I don't think we have any
16 other items that will require a vote.

17 The next item is 2015-12-6, Policies and
18 Procedures regarding the Share Plan.

19 MS. McCAGUE: We really covered that as a
20 result of Mr. Tuten's question earlier.

21 Devin, did you have anything else to add
22 there?

23 MR. TUTEN: I forgot to ask, are you going
24 to mail out a statement to each member, or are we
25 just going to have them log on?

1 MS. McCAGUE: What we're hoping to do -- I'm
2 ahead of us here, but what we're hoping to do is
3 send an electronic statement.

4 MR. TUTEN: Okay.

5 MS. McCAGUE: That's what we're hoping to
6 do.

7 MR. KLAUSNER: That would be the best way.

8 MR. CARTER: If we can, we probably can link
9 it to our current system. So, again, that's the
10 goal.

11 MR. KLAUSNER: Remember, as you send
12 electronics, we need to be careful about Social
13 Security numbers and anything which could be an
14 identify-theft identifier.

15 MR. CARTER: It will have their employee ID
16 number on it.

17 MR. KLAUSNER: That's fine. That's not
18 going to hurt.

19 CHAIRMAN SCHMITT: Every member of the share
20 plan is an active employee. So we should have
21 current email address for each.

22 MR. KLAUSNER: So use the city employee ID
23 number?

24 MR. CARTER: Uh-huh.

25 MR. KLAUSNER: As long as it's not a Social

1 Security number.

2 MR. TUTEN: Now, they'll earn what the
3 fund -- is that going to be gross of fees or net
4 of fees? Just curious.

5 CHAIRMAN SCHMITT: Net.

6 MR. GREIVE: Net of fees. It could be
7 positive or negative.

8 MR. KLAUSNER: Yes.

9 MR. TUTEN: Just trying to get a little
10 extra here.

11 MR. KLAUSNER: The share accounts are a
12 defined contribution feature in the plan. So it
13 rises or falls with the market.

14 MS. McCAGUE: But as Devin works through the
15 issues that come up about the share plan, then
16 we'll be coming back to the Board with any new
17 policy you think needs to be written and
18 approved, and that will be over the course of the
19 next month.

20 MR. PATSY: Can you bring me up to speed at
21 some juncture on the plan -- the policies and
22 procedures for this?

23 MS. McCAGUE: For the share plan, yes. It's
24 brand new to us. It comes out of the June 2015
25 pension reform council ordinance. And so, yes,

1 and as Devin has shared, we're learning and we
2 know what the plan should be, but it's always the
3 devil is in the details.

4 So questions come up and we need to figure
5 out what the policy will be to address them.

6 MR. KLAUSNER: Mr. Patsy, this is also a
7 product of a general state-wide law on this
8 subject, Senate Bill 172.

9 If you go on our law firm website,
10 there's -- under Legal Resources, there is a
11 detailed analysis of the bill and then a
12 Frequently Asked Questions about how these plans
13 work.

14 MR. PATSY: Okay.

15 MR. KLAUSNER: It asks you what your name is
16 when you go on, but you don't have to tell it.

17 CHAIRMAN SCHMITT: All right. The next item
18 is the Draft of Standard Procedures Manual
19 updating the frequent flyer travel awards.

20 Since we only have us three, I'm going to go
21 ahead and defer that vote until the next meeting
22 in January.

23 Next item 2015-12-8, it's a letter to the
24 state attorney in reference to an individual who
25 continued to cash checks from a deceased member.

1 We sent that to the state attorney's office
2 for prosecution. We'll show that for information
3 purposes.

4 MR. KLAUSNER: It is, unfortunately, a
5 common occurrence throughout the country.

6 CHAIRMAN SCHMITT: And we do have procedures
7 in place to detect that. Obviously it worked in
8 this case, but we're still trying to get the
9 funds back from that individual.

10 Next item is 2015-12-12, the Analysis of the
11 DROP Enrollment Statistics. We'll show that
12 received for informational purposes.

13 2015-12-13, Interim Executive Director
14 projects and upcoming items.

15 MS. McCAGUE: I will make this quick. First
16 of all, thank you again for the opportunity. I
17 am enjoying my time here.

18 I wanted to officially share with the Board
19 members my four initial goals.

20 Number 1, clearly, is the safety and
21 soundness of the fund itself.

22 Number 2 is, restore healthy relationship
23 between the fund and city officials, and I use
24 "city officials" term broadly, meaning the
25 elected officials as well as the staff, as well

1 as leaders in the business community.

2 And fourth -- third, of course, is to
3 improve the efficiency and transparency of the
4 fund.

5 And fifth is to find you a great permanent
6 director.

7 So we're making some progress on numbers --
8 especially 2 and 3, and the Board is helping to
9 make sure that, number one, health and safety
10 soundness of the fund stays very good.

11 So there's a lot to do here. Again, I will
12 publicly say, the staff that is here does a --
13 knows their job. They do a very good job and are
14 dedicated to our actives and our pensioners. And
15 I'm grateful for their work and support.

16 Just a -- this is a big thing. Our internal
17 auditors are now off campus. They greeted me
18 when I came and they've been here for a while,
19 and that takes a lot of staff time to get them
20 what they need, but they are now finishing up
21 their audit. We should have it right after the
22 first of the year.

23 MR. CARTER: Yes.

24 MS. McCAGUE: So Joey will get that to you
25 as it comes in and is approved by our Board.

1 We've talked about working with the ITD at
2 the City Hall about the share plan, so that is
3 coming along very well.

4 The other thing that I would say, and this
5 goes to efficiency and transparency of the
6 organization, an effort that the Board has pushed
7 over the last months is imaging and taking our
8 paper records digital.

9 This is a big project for this organization.
10 Everybody is now ready for it. And at the
11 February meeting we will have a recommendation to
12 you on our vendor of choice. And I will tell
13 you, this is highest on my priority because it
14 makes a difference in how we will do our work,
15 how we will be able to respond to requests from
16 the public for information, and just will take us
17 where we need to be.

18 But this will require a tremendous amount of
19 work over the first -- at least the first three
20 or four months over the year. So we look forward
21 to bringing that final recommendation to you in
22 January.

23 And unless there are other questions, that's
24 my report.

25 MR. GREIVE: Mr. Chair --

1 CHAIRMAN SCHMITT: Yes.

2 MR. GREIVE: -- if I may just ask a quick
3 question on number four.

4 I think at one of the most recent meetings
5 we talked about bringing in an executive search
6 firm to help with that process.

7 Is there any update on that, or is that more
8 of a Personnel Committee thing?

9 MS. McCAGUE: I am working with the
10 Personnel Committee -- Mr. Chairman, may I answer
11 that?

12 CHAIRMAN SCHMITT: Yes, please.

13 MS. McCAGUE: First of all, I will tell you
14 that I have reviewed the 22 applications that
15 were filed with the city after it was announced
16 that the candidate had withdrawn. And of those
17 22, only three even had any public pension
18 experience. So this is a job that requires
19 specific experience.

20 I have recommended to the Personnel
21 Committee that we delay hiring a search firm,
22 hoping that the settlement of -- a settlement of
23 the suit between the city to the fund will be
24 settled.

25 I believe that that suit is a problem when

1 we try to recruit, and if we're close to getting
2 it settled, I want to get it settled so that we
3 have a clean slate as we're hiring a director.

4 MR. GREIVE: Okay. That makes sense.

5 MR. KLAUSNER: There is a huge generational
6 turnover in the public pension industry.

7 You know how sometimes we see, like, big
8 groups of police or fire go out because there
9 happened to have been a large recruiting class.

10 We're seeing that there are more than a
11 dozen good-sized public pension plans that are in
12 the search for a CEO. And so we're competing
13 against that market --

14 MR. GREIVE: For the talent.

15 MR. KLAUSNER: I'm sorry?

16 MR. GREIVE: For the talent.

17 MR. KLAUSNER: For the talent. And a lot of
18 people either had specific succession plans and
19 hired from within. So it's -- you've got a tough
20 market. I mean, you happen to be in an
21 attractive city in terms of the place to live and
22 the weather.

23 The interim director's observations about
24 calming the waters will be helpful in attracting
25 a permanent director.

1 MS. McCAGUE: Would you like me to go ahead
2 with the Financial Advisory Committee update?

3 CHAIRMAN SCHMITT: Yes, please.

4 MS. McCAGUE: I'm happy to report we had our
5 second orientation session with our Financial
6 Investment Advisory Committee. That is a
7 five-member group, also required under the
8 pension reform in June of this year by the City.

9 We have five great members.

10 MS. MANNING: Mr. Scheu --

11 MS. McCAGUE: Thank you, Bill, for being
12 there yesterday. Dan Holmes came. We met for an
13 hour and a half. Joey came for a short time.
14 Paul was there with us the whole time. I will
15 tell the trustees --

16 MS. MANNING: Can you hear, Mr. Scheu?

17 MR. SCHEU: Yes, I can. Can you hear me?

18 MS. MANNING: Yes.

19 MS. McCAGUE: -- this is a big
20 responsibility, and we are going to get them
21 educated on the processes. And they will -- they
22 take their job very seriously, and we're going to
23 be working with them, continue to orient them.

24 Their names and backgrounds will be before
25 City Council at the same time the fifth trustee

1 will be at the first of the year.

2 So they will officially be approved and then
3 they will start. And you will be looking to them
4 to advise you before you make allocation
5 decisions or specific investment decision.

6 As the ultimate fiduciary trustees, it is
7 still your decision, but you will look to them,
8 and they are taking that role very seriously.

9 CHAIRMAN SCHMITT: Thank you for that
10 report.

11 We'll move on to the next item, 2015-5-2,
12 Monthly Financial Report and Salary and Benefits
13 Projection.

14 I asked Devin just to take a look at our
15 personnel costs with the retirement of Mr. Keane
16 and bringing him in as a consultant, and
17 obviously Beth as executive director.

18 I wanted to make sure we were still within
19 our parameters budget-wise for our personnel
20 costs.

21 Devin, from your analysis here, it looks
22 like we're well within the budget projections for
23 the remainder of the year.

24 MR. CARTER: Yes.

25 CHAIRMAN SCHMITT: So we'll show that for

1 informational purposes.

2 Next item is 2015-12-17 --

3 MR. SCHEU: Mr. Chairman, can I ask a
4 question about the budget analysis?

5 CHAIRMAN SCHMITT: Sure.

6 MR. SCHEU: I looked at these last night.
7 It looks like the format is the budget for the
8 entire year, the actual year-to-date and the
9 balance.

10 Do we get financial reports where -- like
11 other organizations where you have a monthly --
12 year-to-date actual monthly budget and
13 year-to-date budget? That would be helpful.

14 MR. CARTER: Yes, I can make it -- that's
15 what it is, but I can make it much more detailed
16 if you'd like. I plan on doing that quarterly,
17 because as you can see, we only currently use 3
18 percent of our total budget, and since we get our
19 money managers' invoices quarterly, you will see
20 much more of that in the next meeting.

21 CHAIRMAN SCHMITT: Trustee Scheu, are you
22 saying you prefer to have one each month at the
23 monthly meeting?

24 MR. SCHEU: At the monthly meeting where you
25 just know month-to-month where you are

1 year-to-date, not just on the aggregate. I
2 realize some of that is a timing issue where you
3 might spread insurance -- for example, insurance
4 costs over the year on an equal basis, which
5 doesn't really reflect how they're paid out, but
6 it does give you a monthly idea of where you
7 stand on the budget.

8 MS. McCAGUE: Mr. Scheu, as Devin said, what
9 you will see will be very lumpy because the
10 investment manager fees are on a quarterly basis.
11 So they're not -- as long as you understand that.

12 MR. SCHEU: I see. Yes.

13 MS. McCAGUE: As long as you-all understand
14 that. But, yes, we can do that.

15 MR. CARTER: Yes.

16 MR. SCHEU: Sure. Well, even if we did it
17 on a quarterly basis, if we had the
18 quarter-to-date of actual and budget instead of
19 having to look through the whole year.

20 MR. CARTER: Yes.

21 MS. McCAGUE: Okay.

22 CHAIRMAN SCHMITT: Okay. Any further
23 discussion on that?

24 (No responses.)

25 CHAIRMAN SCHMITT: Show that received as

1 information.

2 The next item is the 2015-12-17, 2016 PFPF
3 Holiday Meeting Schedule. And, again, we will
4 show that received as information purposes.

5 Next item, 2015-12-18, Recommendations from
6 Trustee Scheu and discussion.

7 Trustee Scheu.

8 MR. SCHEU: Yes. I don't have that on the
9 agenda that was circulated last night. From what
10 I understood from talking to Beth either
11 yesterday or the day before, we have some
12 contracts that expire at the end of the month --
13 end of the fiscal year, which would be in
14 September. So this is really premature.

15 But I just wanted to get the notion before
16 the Board that we ought to be reviewing in some
17 timely basis the legal and actuarial services and
18 testing those on some frequency as far as other
19 qualified people.

20 So that, for example, every two years or
21 three years or even every year we send an RFP out
22 seeking legal services, for example, and we would
23 evaluate both costs and quality, and then decide
24 whether to go forward.

25 I've discussed this with Mr. Klausner, and

1 he and I have a good understanding about it. He
2 has no objection to that.

3 But it's probably premature to do that since
4 the contract doesn't run out until September.
5 You review your auditors every so many years and
6 you review your other special consultants every
7 so often.

8 MR. KLAUSNER: We have other client
9 relationships where either they're statutorily
10 mandated in other states to do it every five
11 years. Some just do it as a matter of course.

12 I didn't take it -- Mr. Scheu and I spoke
13 about it. I didn't take it nor did he tell me it
14 was intended as any expression of
15 dissatisfaction. He just saw it --

16 MR. SCHEU: That's correct.

17 MR. KLAUSNER: -- as a business control
18 measure. I'm not offended.

19 MS. MCCAGUE: Perhaps the way to approach
20 this would be maybe early in the year we could
21 take a look since there is not a policy, as far
22 as I know, on how often we would review
23 contracts.

24 Maybe we should take a look at our building
25 policy and determining if we -- how frequently we

1 think it's wise to review contracts or bid
2 contracts.

3 MR. KLAUSNER: I actually have some from
4 other places I can send.

5 CHAIRMAN SCHMITT: Okay.

6 MS. McCAGUE: Okay.

7 MR. SCHEU: It relates also to my concern
8 about -- this may not be shared by everybody, but
9 the way I -- I'm just a big believer in the
10 Charter of the City of Jacksonville and the way
11 the independent boards and agencies relate to the
12 Office of General Counsel.

13 I think -- and Bob and I've talked about
14 this also, but generally speaking, the OGC should
15 provide legal services, and it's only when you
16 need specialized legal services that you would
17 ask for special counsel.

18 I know that there's a conflict in the
19 charter as far as the powers of the Board, but it
20 seems to me that's the philosophy of the
21 consolidated government, you know, to follow
22 that.

23 I do have an issue, as I think Larry did
24 too, with the General Counsel's Office
25 representing us while they're suing us, and I'm

1 not sure how appropriate that is.

2 CHAIRMAN SCHMITT: We had a little
3 discussion on that when we lost you on the phone.
4 But, yeah, I agree with your assessment on that,
5 a little of a problem there. And we will
6 readdress that hopefully in the near future when
7 that lawsuit is settled.

8 In the meantime, we will continue to operate
9 using OGC for our public records mainly, and
10 anything specifically related to the pension, we
11 will continue with our private attorney.

12 MR. SCHEU: Sure. That's fine.

13 CHAIRMAN SCHMITT: Okay. Any further
14 discussion on that item?

15 (No responses.)

16 CHAIRMAN SCHMITT: All right. Last item,
17 2014-11-10, Records Retention.

18 MS. McCAGUE: That's the imaging project
19 that I really already addressed.

20 But if I just might mention one other thing,
21 and that is that on January 5th, our actuary,
22 Jarmon Welch, will be here to present the
23 actuarial report. So I would like to know what
24 the trustees -- I know Chairman Schmitt's got it
25 on his calendar.

1 Are you-all interested in coming to that
2 meeting? And if so, we will post that as an
3 official workshop and give it the public notice.

4 MR. PATSY: What's the date again?

5 MS. McCAGUE: January 5th.

6 MR. PATSY: What time?

7 MS. McCAGUE: 10:00.

8 MR. TUTEN: What was it, January 2nd?

9 MS. McCAGUE: 5th, Tuesday.

10 MR. PATSY: I would like to be here, but I
11 can't. I've got a conflict.

12 MR. CARTER: Is this the official report or
13 is this when him and Kelly are coming up to walk
14 you through the report and then do the official
15 report to the Board?

16 MS. McCAGUE: Right. It will be walking
17 through the report, but it's not for the --
18 obviously not for the Board approval.

19 MR. CARTER: Okay.

20 MS. McCAGUE: But I just want to make sure
21 that we announce that, and any trustees who want
22 to come, let us know. So if there's more than
23 one, we will issue the public notice.

24 MR. PATSY: Is there any feasibility of
25 changing that meeting to the afternoon?

1 MS. McCAGUE: Yes.

2 MR. PATSY: Okay. If it's in the afternoon,
3 I can do that.

4 MS. McCAGUE: Okay. I'll check with the
5 chairman, but I know the actuary is available all
6 that day.

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

8 CHAIRMAN SCHMITT: All right. That was the
9 last item on the agenda.

10 I just want to take a few minutes and thank
11 the staff here at the fund for all their hard
12 work. It's been a wild year, obviously, and a
13 lot of interesting issues have been coming up.
14 And you-all have handled it very well, very
15 professional. You've put in a lot of hours, a
16 lot of hard work, and I want to make sure you-all
17 know that it's very much appreciated.

18 So thank you. I wish you-all a Happy New
19 Year and a less stressful New Year.

20 I would also like to welcome our new Board
21 member, Mr. Patsy. I think he's going to be a
22 great addition to us. He's already bought up
23 some interesting questions. So I think that's a
24 sign of things to come, and we're going to
25 benefit greatly from having him here.

1 And, also, this has been three weeks now?

2 MS. McCAGUE: Going on it, yes.

3 CHAIRMAN SCHMITT: For Ms. McCague. She's
4 done a fantastic job. Since she's been here,
5 she's been making the rounds, meeting a lot of
6 people, getting her head wrapped around this
7 whole pension issue, and she's really taking it
8 head on and done a fantastic job in the amount of
9 time that she's been here.

10 And, lastly, thank you all for your
11 continued hard work and efforts here.

12 Joey, I know you do a lot of work for us
13 behind the scenes. We do appreciate it. The
14 amount of work that you do for us reducing those
15 fees is a direct benefit to our members and the
16 city. So thank you also.

17 MR. GREIVE: Thank you.

18 CHAIRMAN SCHMITT: Everybody else, Merry
19 Christmas and Happy New Year.

20 We are adjourned.

21 (The Board meeting concluded at 10:56 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, and that the transcript, pages 3 through 98, is a true and correct computer-aided transcription of my stenographic notes taken at the time and place indicated herein.

DATED this 4th day of January, 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